POLIMEX MOSTOSTAL S.A.

FINANCIAL STATEMENTS FOR THE YEAR CLOSED ON 31 DECEMBER 2020 WITH THE OPINION BY A STATUTORY AUDITOR

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(in thousands of PLN)

Profit and loss account

	Note	Year ended on 31 December 2020	Year ended on 31 December 2019
Sales revenues	7.1	425,376	524,858
Cost of goods sold	7.4	(376,292)	(476,656)
Gross profit / (loss) on sales		**49,084**	**48,202**
General administration expenses	7.4, 7.5	(34,705)	(33,495)
Profit / (loss) on impairment of financial assets	7.7	(19)	19,975
Other operating revenues	7.8	19,589	25,718
Other operating costs	7.9	(7,166)	(2,288)
Profit / (loss) on operating activities		**26,783**	**58,112**
Financial income	7.10	90,174	72,086
Financial costs	7.11	(25,199)	(40,779)
Gross profit / (loss)		**91,758**	**89,419**
Income tax	8	(30,364)	4,244
Net profit / (loss)		**61,394**	**93,663**
Profit / loss per share (in PLN per share)			
– basic and diluted profit per share	10	0.259	0.396

Comprehensive income statement

	Year ended on 31 December 2020	Year ended on 31 December 2019
Net profit / (loss)	**61,394**	**93,663**
Items that will not be allocated in the later periods to the profit and loss account:		
Change from the valuation of tangible fixed assets	–	80
Actuarial profit / (loss)	(4)	(77)
Other net comprehensive income	**(4)**	**3**
Total comprehensive income	**61,390**	**93,666**

(in thousands of PLN)

Balance Sheet

	Note	As at 31 December 2020	As at 31 December 2019 (after change)
Assets			
Fixed assets			
Tangible fixed assets	11.1	36,879	20,332
Investment property	11.3	38,944	37,994
Intangible assets		346	345
Financial assets	12.1	486,833	495,537
Long-term receivables		235	9
Deposits due to the construction contracts		22,231	99,849
Deferred tax assets	8.3	103,224	140,406
Other long-term assets		4,520	2,420
Total fixed assets		**693,212**	**796,892**
Current assets			
Inventories		4,123	168
Trade receivables	13	309,286	52,115
Deposits due to the construction contracts		4,540	10,831
Construction contracts assets	15	49,549	11,553
Other receivables	13	110,812	71,680
Financial assets	12.2	32,658	30,642
Other assets		2,949	1,620
Cash	16	209,409	133,397
Total current assets		**723,326**	**312,006**
Assets held for sale	18	**26,685**	**42,185**
Total assets		**1,443,223**	**1,151,083**

(in thousands of PLN)

	Note	As at 31 December 2020	As at 31 December 2019* (after change)
Liabilities and equity			
Equity			
Share capital	19.1	473,238	473,238
Reserve capital	19.2	157,746	157,746
Other capitals	19.3	(37,629)	(132,204)
Reserve capital from surplus of bonds convertible into shares	19.4	6,071	31,552
Accumulated other comprehensive income	19.5	28,825	35,970
Retained earnings / Uncovered losses	19.6	91,178	94,575
Total equity		**719,429**	**660,877**
Long-term liabilities			
Bank loans, borrowings and other external sources of financing	20	34,596	30,429
Long-term bonds	21	113,364	86,857
Provisions	23	12,018	16,986
Employee benefit liabilities	24	875	766
Deposits due to the construction contracts		12,834	14,337
Other liabilities		37	131
Total long-term liabilities		**173,724**	**149,506**
Short-term liabilities			
Bank loans, borrowings and other external sources of financing	20	16,984	88,722
Short-term bonds	21	13,484	86,721
Trade receivables	24	256,860	84,542
Deposits due to the construction contracts		17,689	14,422
Construction contracts liabilities	15	211,106	4,715
Other liabilities	24	4,634	1,494
Provisions	23	17,076	51,134
Employee benefit liabilities	24	10,744	7,458
Deferred income		1,493	1,492
Total short-term liabilities		**550,070**	**340,700**
Total liabilities		**723,794**	**490,206**
Total liabilities and equity		**1,443,223**	**1,151,083**

** Restated data, changes outlined in note 3.4.*

(in thousands of PLN)

Cash flow statement

	Note	Year ended on 31 December 2020	Year ended on 31 December 2019
Cash flows from operating activities			
Gross profit / (loss)		**91,758**	**89,419**
Adjustment items:		**14,975**	**(106,528)**
Depreciation	7.4	7,782	7,768
Net interest and dividends		3,286	18,008
Profit / (loss) on investing activities		1,440	(39,552)
Change in receivables	17	(335,950)	115,973
Change in inventories		(3,955)	–
Change in liabilities, excluding bank loans and borrowings	17	384,295	(139,800)
Change in other assets and deferred income		(2,804)	(3,240)
Change in provisions		(39,026)	(65,350)
Other		(93)	(335)
Net cash from operating activities		**106,733**	**(17,109)**
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		11,377	8,862
Purchase of tangible fixed assets and intangible assets		(3,395)	(310)
Sales of financial assets		135	–
Purchase of financial assets		(265)	(8,919)
Received dividends, interest and participation in profit		29,684	77,981
Repayment of borrowings		11,210	50,858
Granting borrowings		(2,321)	(64,712)
Other		–	89
Net cash from investing activities		**46,425**	**63,849**
Cash flows from financing activities			
Proceeds from borrowings and bank loans		72,363	–
Lease payments		(5,775)	(5,586)
Interests paid		(57,021)	(38,205)
Repayment of borrowings and bank loans		(54,659)	(41,965)
Repayment of bonds		(32,054)	(11,210)
Net cash from financing activities		**(77,146)**	**(96,966)**
Increase / (decrease) in net cash and cash equivalents		76,012	(50,226)
Net foreign exchange differences			
Cash at the beginning of the period		**133,397**	**183,623**
Cash at the end of the period		**209,409**	**133,397**
Restricted cash		*110,557*	–

(in thousands of PLN)

Statement of changes in equity

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income		Retained earnings / Uncovered losses	Total equity
					Revaluation reserve	Actuarial profit / (loss)		
As at 01 January 2020	**473,238**	**157,746**	**(132,204)**	**31,552**	**35,100**	**870**	**94,575**	**660,877**
Net profit / (loss)	–	–	–	–	–	–	61,394	61,394
Actuarial profit / (loss)	–	–	–	–	–	(4)	–	(4)
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(4)**	**61,394**	**61,390**
Distribution of net profit / (loss)	–	–	94,575	–	–	–	(94,575)	–
Transfer of surplus from revaluation of tangible fixed assets due to their sale	–	–	–	–	(7,141)	–	7,141	–
Material change in the terms of issue of bonds containing an equity component - settlement of expiring issue	–	–	–	(29,733)	–	–	28,056	(1,677)
Material change in the terms of issue of bonds containing an equity component - recognition of the new terms	–	–	–	5,677	–	–	–	5,677
Deferred tax related to the equity component of the new issue and to series C issue	–	–	–	(1,425)	–	–	–	(1,425)
Deferred tax on the equity component of the original issue of series A and B	–	–	–	–	–	–	(5,413)	(5,413)
As at 31 December 2020	**473,238**	**157,746**	**(37,629)**	**6,071**	**27,959**	**866**	**91,178**	**719,429**

(in thousands of PLN)

	Share capital	Reserve capital	Other capitals	Reserve capital from surplus of bonds convertible into shares	Accumulated other comprehensive income		Retained earnings / Uncovered losses	Total equity
					Revaluation reserve	Actuarial profit / (loss)		
As at 01 January 2019	**473,238**	**157,746**	**(149,732)**	**31,552**	**35,933**	**947**	**17,527**	**567,211**
Net profit / (loss)	–	–	–	–	–	–	93,663	93,663
Other net comprehensive income	–	–	–	–	80	(77)	–	3
Total comprehensive income	**–**	**–**	**–**	**–**	**80**	**(77)**	**93,663**	**93,666**
Distribution of net profit / (loss)	–	–	17,528	–	–	–	(17,528)	–
Transfer of surplus from revaluation of tangible fixed assets due to their sale	–	–	–	–	(913)	–	913	–
As at 31 December 2019	**473,238**	**157,746**	**(132,204)**	**31,552**	**35,100**	**870**	**94,575**	**660,877**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

1. General information

Polimex Mostostal S.A. (the "Company", "Polimex Mostostal S.A.") operates under the statute established by the notarial deed of 18 May 1993 (Rep. A No 4056/93), as amended. The registered office of the Company is located in Warsaw on Al. Jana Pawła II 12, 00--124 Warsaw. The Company was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register under the number KRS 0000022460 The Company is assigned the statistical identification number (REGON) 710252031.

The Company has been established for an indefinite period. The financial year of the Company is the same as the calendar year.

The primary business activity of the Company involves a wide range of construction and assembly services, such as the assembly of industrial devices and installations, provided in the formula of a general contractor, both in Poland and abroad, as well as administrative support for the companies within Polimex Mostostal Capital Group (the "Capital Group", the "Group"). The Company operates in the following segments: Energy, Oil, Gas, Chemicals (Petrochemicals), Other Activities. A detailed description of business activities within a given segment is provided in note 6. The shares of the Company are listed on the Warsaw Stock Exchange. The Company is the Parent Company within the Capital Group.

2. Approval of the financial statements

On 28 April 2021 the financial statements of the Company for the year ended on 31 December 2020 were approved for publication by the Management Board of the Parent Company.

The Company as the Parent Company of the Capital Group has also prepared the consolidated financial statements for the year ended on 31 December 2020 which were approved for publication on 28 April 2021.

The consolidated financial statements of the Company are under review by a statutory auditor – Ernst & Young Audyt Polska Sp. z o.o. Sp. k.

3. Platform of the applied International Financial Reporting Standards

3.1. Statement on compliance

These financial statements have been prepared in compliance with the International Financial Reporting Standards (the "IFRS") and the related interpretations published in the form of European Commission regulations.

The annual financial statements of the Company have been prepared in accordance with the requirements of EU IFRS. In order to fully understand the Company's financial standing and the results as the Parent Company in the Capital Group, these financial statements should be read jointly with the annual consolidated financial statements for the period ended on 31 December 2020. The consolidated financial statements will be available on the Company's website at www.polimex-mostostal.pl by the date consistent with the current report regarding the date of publication of the consolidated financial statements of the Capital Group for 2020.

3.2. Going concern

These financial statements have been prepared with the assumption that the Company in the foreseeable future will continue as a going concern. As at the day of the approval of these financial statements for publication there were no circumstances which would indicate a threat to the going concern of the Company.

The Management Board of the Parent Company Polimex Mostostal S.A. conducted an analysis on the impact of the SARS-CoV-2 epidemic on the financial condition and financial results of the Group for in the current period and in the perspective of the coming quarters:

- The Contractor (Consortium) was on schedule to complete the Żerań Project on November 20, 2020 in accordance with the contractual requirements, however the program was prevented by the outbreak of the COVID-19 pandemic and drastic restrictions introduced by the Polish legislator and in the legislations of other countries introducing anti-crisis regulations. Consequently, due to changes in the law, it became impossible to mobilise a sufficient number of workers from Belarus and Ukraine to meet the recovery schedule, and due to the complete loss of production capacity by the two largest Polish companies in the electrical sector, Elektrobudowa and Elsta, which occurred at a time coinciding with the closure of the Polish borders, it became impossible to efficiently restore lost resources. As a result, the electrical work of a participant in the consortium - which lies in the main critical path of the project and on the completion of which the date of the first firing of the gas turbine directly depended - was carried out during the initial period of the pandemic by only 15% of the necessary number of workers. On October 7, 2020, the contractor submitted a claim to the ordering party, "Claim for Extension of Contract Period and Change in Contract Price Due to Changes in Law Introduced to Counter COVID-19," regarding the impact of the COVID-19 outbreak on the contract completion date and contract price resulting from the extension of the completion date due to the reduced availability of subcontractor personnel and loss of their productivity, particularly due to the introduction of new legislation that constitutes a change in law as defined in the contract. According to this submission and the subsequent ones dated 17/12/2020 (and 08/01/2021) concerning the impact of the second wave of the pandemic, the completion of the project is projected for 30 September 2021, which is not disputed by the Ordering Party.

- During the implementation of the Puławy Project, there were adverse effects of a Force Majeure event involving the spread of the epidemic of SARS-CoV-2 coronavirus. These were both infections with COVID-19 among employees of the Company executing the Contract in Puławy, including key persons on the Project, and its subcontractors, and related referrals by the sanitary authorities to compulsory quarantine of workers having contact with infected persons. All this significantly hampered the implementation of the Project. In particular, the design process suffered delays due to the fairly early onset of illnesses among the staff of the General Designer on the Project and an increase in illnesses throughout the year. Also, key subcontractors/suppliers, due to the SARS-CoV-2 outbreak, reported delays in sourcing materials, equipment, and services and the possibility of untimely performance of concluded contracts related to the Project. Due to the fact that the outbreak of the epidemic in question is of a continuous and growing nature, and the occurrence of further, negative manifestations of the epidemic for the Puławy Project cannot be excluded, it is currently difficult to assess its negative impact on the schedule of works or increased costs of the Project.
- On the Dolna Odra Project, in accordance with the project schedule, work is currently underway to agree on the basic design, demolition work and the contracting of further subcontractors. In September 2020, part of the construction site was handed over and in Q4 of 2020 the construction facilities were open. At the end of October, a legally binding decision on the building permit was obtained, which allowed for taking over the remaining part of the construction site and commencement of main construction works as well as contracting main deliveries and further construction works. Currently, the ongoing design, preparation, excavation and demolition works are proceeding without major disruptions, which has been confirmed by reaching the first four Implementation Stages within the agreed deadlines.
- On the Opole project there are ongoing works related to the servicing of the warranty period.
- The Company's liquidity is fully secured. The epidemic did not cause any significant delays in payments on the part of the Company's counter parties. The Company believes that the credit risk of its balances of receivables has not materially increased. At the moment there are no premises to adjust the expected cash flows. At the end of 2020, the Company completed a financing structure change and made an early repayment of financial debt and agreed a material change to the terms of bond issue (Notes 20 and 21).
- The company has benefited from the shield packages adopted by the parliament to deal with the economic impact of the pandemic. In particular, the Company applied for and received subsidies to employment costs in connection with temporary reduced hours and subsidies for employees not covered by the shutdown and reduced hours. The received subsidies to employment costs were recognised on an accrual basis and reduced payroll costs (in the period to 31 December 2020 in the amount of PLN 1,586 thousand).

In the opinion of the Management Board of Company, the SARS-CoV-2 epidemic has not prompted the necessity to make adjustments in the financial statements for the year 2020. Any potential consequences of the epidemic in 2021 will be reflected in a relevant manner in the financial statements for the year 2021.

3.3. Effect of new and amended standards and interpretations

While preparing these financial statements the Company adopted the following standards for the first time:

- Amendments to IFRS 9, IFRS 39 and IFRS 7: Reform of interest rate benchmarks;
- Amendments to the Conceptual Framework for Financial Reporting included in the International Financial Reporting Standards;
- Amendments to IFRS 1 and IFRS 8: Definition of "Material" – effective for annual reporting periods beginning on or after 1 January 2020;
- Changes to IFRS 3 Business combinations.

The above mentioned standards have not had a significant impact on these financial statements.

IFRS as approved by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the interpretations and standards listed below, which as at 28 April 2021 still awaited implementation:

- IFRS 14 Regulatory Interim Accruals (published on 30 January 2014) – compliant with the decision of the European Commission, the process for approving a draft standard will not be initiated before the final version is published – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IFRS 28 "Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture" (published on 11 September 2014) – discussions leading to the approval of these amendments have been postponed by the EU for an indefinite period – the date of entry into force has been postponed by the IASB for an indefinite period;
- IFRS 17 Insurance Contracts (published on 18 May 2017) – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 1 January 2021;
- Amendments to IFRS 1 Presentation of Financial Statements: Classification of liabilities as short-term and long-term (published on 23 January 2020) – effective for annual reporting periods beginning on or after 01 January 2023;;
- Amendments IFRS 3 Amendments to Conceptual Framework for Financial Reporting included in the IFRS (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendments to IFRS 16 Tangible Fixed Assets: revenues generated before commissioning (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendments to IFRS 37 Agreements Giving Rise to Liabilities – Costs of meeting contractual obligations (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendments arising from the IFRS 2018-2020 review (published on 14 May 2020) – effective for annual reporting periods beginning on or after 01 January 2022;
- Amendment to IFRS 16 Leases: Rent concessions related to Covid-19 (published on 28 May 2020) – as at the date of the approval of these financial statements, the standard has not been signed off by the EU – effective for annual reporting periods beginning on or after 01 June 2020;
- Amendments to IFRS 4 *Insurance contracts* – deferral of IFRS 9 (published on 25 June 2020) – effective for annual reporting periods beginning on or after 01 June 2020;
- Amendments to IFRS 9, IFRS 39, IFRS 7, IFRS 4 and IFRS 16: *Reform of interest rate benchmarks - Phase 2* (published on 27 August 2020) – effective for annual reporting periods beginning on or after 01 January 2021;
- Amendments to IFRS 1 and Practice Statement 2: Disclosure of Accounting Policies (published on 12 February 2021) – effective for annual reporting periods beginning on or after 01 January 2023;
- Changes to IFRS 8: Definition of Estimates (published on 12 February 2021) – effective for annual reporting periods beginning on or after 01 January 2023;

According to the Company's estimates, the above-mentioned new standards and amendments to existing standards would not have had a material impact on the financial statements, if applied by the Company as at the balance sheet date.

3.4. Changes in accounting policies and in the process of the preparation of financial statements

The company changed the presentation of liabilities on account of recourse claims under guarantees in the balance sheet. So far, the Company has presented these liabilities as an element of other liabilities (divided into short-term and long-term parts). In the profit and loss account, financial costs relating to these liabilities were presented under financing activities. Starting from this statement, these liabilities are presented in the balance sheet under bank loans, borrowings and other sources of financing (divided into short-term and long-term parts), in the cash flow statement under financing activities, whereas their presentation in the profit and loss account remains unchanged. Liabilities on account of recourse claims under guarantees are financial liabilities in respect of financial institutions. These liabilities are measured at amortized cost. The Group believes that presenting these liabilities in the manner described above will result in the financial statements containing more reliable and useful information about the impact of these transactions on the financial position. The changes in the presentation of data has had no impact on the position of equities or on the financial results.

The table below outlines the impact of the changes in the presentation of comparative data:

	As at 31 December 2019 (before change)	**Change of the financial statements**	**As at 31 December 2019 (after change)**
Long-term liabilities			
Bank loans, borrowings and other sources of financing	25,885	4,544	30,429
Other liabilities	4,675	(4,544)	131
Short-term liabilities			
Bank loans, borrowings and other sources of financing	79,901	8,821	88,722
Other liabilities	10,315	(8,821)	1,494

4. Adopted accounting principles (policy)

4.1. The grounds for preparing the financial statements

These financial statements have been prepared in accordance with the historical cost concept, with the exception of certain tangible fixed assets which are recognized at the re-evaluated in amounts or at fair values and financial instruments recognized at fair value at the end of each period in accordance with the accounting policy specified below.

The historical cost is determined in principle on the basis of the fair value of the payment made for goods or services.

The financial statements have been presented in the Polish zloty (‘PLN”) (the currency of the presentation) and all values, unless indicated otherwise, are presented in thousands of PLN (“PLN thousand”).

4.2. Conversion of amounts expressed in foreign currencies

The functional currency of the Company is the Polish zloty.

Transactions expressed in currencies other than the Polish zloty are converted into PLN using the exchange rate in force on the date of the transaction.

As at the balance sheet date, the monetary assets and liabilities expressed in currencies other than the Polish zloty are converted into PLN using the average exchange rate specified for a given currency by the National Bank of Poland at the end of the reporting period. The exchange differences resulting from the translation and settlement of these items are recognised in the financial revenues/expenses or capitalised in the value of assets. Non-monetary assets and liabilities measured at a historical cost in a foreign currency are recognized using the exchange rate on the date of the transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rate on the date when the fair value was determined.

4.3. Tangible fixed assets

Tangible fixed assets are shown at the purchase price/production cost less the depreciation and impairment losses, except for the asset class defined as real estate and structures permanently connected with land, i.e. land, production plants and property developed with a warehouse, industrial and office building facilities. The above asset class is presented under the "Land, buildings and structures" category and is valued according to the revaluation model.

The initial value of tangible fixed assets includes their acquisition price increased by all costs directly related to the acquisition and adaptation of the asset components to the condition for its intended use. The cost also includes the replacement of the individual components of machinery and equipment when incurred, if the recognition criteria are met. Any costs incurred after the date when a fixed asset is put into operation, such as the maintenance and repair costs, are charged against the profit or loss when incurred.

Increases in the carrying amount due to revaluation of assets recognised according to the revaluation method are referred to under other comprehensive income and they are recognised as accumulated other comprehensive income in the shareholders' equity. Reductions offsetting earlier increases that relate to the same fixed asset are charged against other comprehensive income and reduce the capital arising from the revaluation. All other reductions are recognised in the profit and loss account. The resulting component of equity is transferred to the position of retained earnings when the asset is removed from the balance sheet.

Tangible fixed assets, at the time of their acquisition, are divided into components with a significant value to which a separate period of the economic usability can be attributed.

The depreciation is calculated on a straight-line basis for an estimated useful life of a given component of assets, amounting to:

Type	Period
Buildings and structures	10-60 years
Machines and technical equipment	2-40 years
Office equipment	3-10 years
Means of transportation	2-30 years
Computers	2-8 years
Investments in external tangible fixed assets	10-25 years

The final value, the period of use and the method of amortization of asset components are verified annually at the end of December and, if necessary, corrected effective from the beginning of the next financial year.

Investments in progress relate to tangible fixed assets under construction or assembly and they are recognised at the acquisition or production cost less any impairment losses. The tangible fixed assets under construction are not subject to depreciation until their completion and transfer into operation.

4.4. Investment property

The initial recognition of the investment property occurs according to the acquisition or production cost, including transaction costs.

After initial recognition, investment properties are recognized at fair value. Profits or losses arising from changes in the fair value of the investment property are recognised in profit or loss under other operating revenues or other operating costs in the period in which they arose.

The transfer of assets to investment properties is made when there is a change in their use confirmed by the owner ceasing to use the assets' component or the conclusion of an operating leasing agreement. If the asset used by the owner, the Company, becomes an investment property, the Company applies the principles outlined in the section “Tangible fixed assets” until the day of changing the use of this property. The difference between the carrying amount determined in accordance with the principles presented in part as determined on the day of the transfer presented under “Tangible fixed assets” and its fair value is treated analogically to the approach corresponding to the revalued amount. In the case of disposal of investment property, the difference between the selling price and the book value is recognised in the profit and loss account.

4.5. Intangible assets

Intangible assets are measured at the initial recognition at the purchase price or production cost, as appropriate. Following the initial recognition, intangible assets are stated at their acquisition or production cost reduced by depreciation and impairment write-offs for the loss in value.

Intangible assets with a definite useful life are depreciated during the period of use and are subjected to the value impairment tests whenever there are premises indicating their value loss. The following periods of use have been applied:

Type	Period
Patents and licences	For patents and licenses used on the basis of a contract concluded for a definite period, this period is assumed, taking into account the period for which the use may be extended
Development cost	5 years
Software	2-15 years

4.6. Impairment of non-financial fixed assets

As at each balance sheet date, the Company evaluates whether there are any prerequisites indicating that a loss in value of components of non-financial fixed assets may have occurred. In the event when there are such prerequisites or in case of the necessity to conduct an annual impairment test, the Company estimates the recoverable value of a given component of assets or a cash generating unit the component of assets belongs to if the element of assets concerned does not individually generate cash inflows.

The recoverable value of a component of assets or a cash generating unit corresponds to the fair value reduced by the cost of sale of this component or respectively the cash generating unit, or its value in use, depending on which one is higher. If the balance sheet value of a component of assets is higher than its recoverable value, the loss in value occurs and a write-off to the determined recoverable value is made.

At each balance sheet date, the Company assesses whether there are any prerequisites indicating that the impairment write-off for the loss in value, which was recognised in previous periods, in relation to a given component of assets is unnecessary or if it should be reduced.

4.7. Borrowing costs

Borrowing costs are capitalised as part of the cost of producing tangible fixed assets. The borrowing costs are composed of interest calculated using the effective interest rate method, financial charges due to finance lease agreements and exchange differences occurring in connection with borrowing up to the amount corresponding to the adjustment of the interest cost.

4.8. Share in profits of limited partnerships

The Company is a partner (a limited partner) in subsidiaries that are limited partnerships. For each reporting period, the Company recognises financial revenues due to the share in profits of these subsidiaries. Receivables under this title are presented in long-term receivables - if their maturity date exceeds 12 months from the balance sheet date - or in the position of trade receivables and other receivables - if their maturity date does not exceed 12 months.

Financial revenues under the above title are recognized in the value of results obtained by subsidiaries in compliance with the Company’s percentage share resulting from the contractual settlements between the shareholders. Financial revenues/costs under this title are recognized in the financial year in which a subsidiary achieves profits/losses regardless of the period during which the division of this result or the coverage of the loss takes place. Receivables are assessed with the application of the depreciated cost method. Shares in profits of limited partnerships are subject to revaluation in terms of impairment on principles applicable for financial assets. The revaluation is presented as financial costs.

4.9. Inventories

Inventories are measured at the lower of the two values: the acquisition price/production cost and the maximum achievable net sale price.

The costs are recognised as follows:

Materials	at the purchase price determined using the "first in-first out" method;
Finished products and products in progress	the cost of direct materials and labour, as well as an appropriate mark-up of indirect production costs determined assuming the normal use of production capacity, excluding borrowing costs;
Goods	at the purchase price determined using the "first in-first out" method.

When the inventory is released from the warehouse, the Company recognises the cost of sales - in the case of sales or consumption of materials - in case of delivery of the inventory for further production or provision of services.

When the inventory is sold the carrying amount of these inventories is recognised as the cost of the period in which the relevant revenues are recognised.

The maximum achievable net sale price, is an estimated sale price in the ordinary course of business decreased by the costs of finalization, as well as the estimated costs of sale.

4.10. Trade receivables

Trade receivables are recognised and stated according to the initially invoiced amounts, including the write-off against doubtful receivables.

If the effect of the value of money is material, the value of the receivables is determined by discounting the projected future cash flows to the present value using a discount rate that reflects the current market assessments of the value of money and the contractor's credit risk. If a method involving discounting was applied, then the increase in liabilities due to the passing time is recognised as financial revenues.

4.11. Other receivables

Other receivables include, in particular, receivables from limited partnerships in which the Company is a partner, advance payments forwarded for future purchases of tangible fixed assets, intangible assets and inventories. The advance payments are presented according to the nature of the assets to which they relate, respectively, as fixed or current assets. As non-monetary assets, the advance payments are not subject to discount. Other receivables also include VAT and other public law receivables.

4.12. Deposits transferred under construction contracts

The deposits under construction contracts are amounts due to the Company resulting from the amounts paid within the construction contracts. In particular, the deposits constitute collateral provided by the Company. Deposits are retained from sale invoices issued by the Company as the implementation of services progresses or they are provided a singular payment by the Company. The deposits are settled collectively with the finalization of the contract or after the warranty period.

The deposits under construction contracts are recognised and disclosed according to the amounts originally invoiced or paid to the recipient, including the write-off.

If the effect of the value of money is material, the value of the deposit is determined by discounting the projected future cash flows to the present value using a discount rate that reflects the current market assessments of the value of money and the contractor's credit risk. The write-off for deposits transferred under construction contracts is estimated when the collection of the full amount of the deposit is no longer probable.

If a method involving discounting was applied, then the increase in value due to the passing time is recognised as financial revenues.

4.13. Cash and cash equivalents

The cash values shown in the balance sheet include cash at the bank and on hand, as well as bank deposits payable on request.

Cash equivalents include investments that meet all of the following criteria: they are short-term, i.e., generally with a maturity of less than 3 months from the date of the acquisition, highly liquid, easily convertible into specified amounts of cash and exposed to a slight risk of change in value.

Cash and cash equivalents are measured at amortized cost.

The balance of cash and cash equivalents shown in the cash flow statement consists of the cash and cash equivalents specified above.

4.14. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to a binding contract. Upon initial recognition the Company measures a financial asset or financial liability at its fair value, except for trade receivables which are measured at the transaction price - if they do not contain a significant element of financing.

Financial assets are classified into the following valuation categories:

- assets measured at amortized cost,
- assets measured at fair value through the financial result
- assets measured at fair value through other comprehensive income.

The Company classifies a financial asset based on the Company's business model in terms of managing financial assets and the characteristics of contractual cash flows for the financial asset (the so-called “capital and interest only” criterion).

A financial asset is measured at amortized cost if both of the following conditions are met:

- the financial asset is held in accordance with a business model whose purpose is to maintain financial assets for obtaining contractual cash flows, and
- the terms of the contract concerning a component of a financial asset create cash flows during certain period which only constitute a repayment of the main amount and the interest from the main amount remaining to be repaid.

All financial assets held by the Company are measured at amortized cost. Interest income is calculated using the effective interest method and it is recognized in the profit and loss account under financial income.

Dividends are recognized in the profit and loss account when the Company is entitled to receive dividends.

The Company assesses the expected credit losses related to debt instruments measured at amortized cost and fair value through profit or loss, regardless of whether there is any evidence of impairment.

In the case of trade receivables, deposits and assets due to the valuation of contracts the Company applies a simplified approach and measures the write-off on expected credit losses in the amount equal to the expected credit losses in the entire lifetime using the reserve matrix. The Company uses its historical data on credit losses, as well as information on individual assessment of impairment risk and takes into account the information regarding the future. Write-offs for expected credit losses recognized in the reporting period are presented in note 14.

In the case of other financial assets including cash, the Company measures the write-off on expected loan losses in the amount equal to a 12-month period of expected loan losses. If the credit risk related to a given financial instrument has increased significantly since the initial recognition, the Company measures the write-off on expected credit losses on the financial instrument in the amount equal to the expected credit loss over the entire lifetime.

The Company estimates that the credit risk associated with a given financial instrument has increased significantly since its initial recognition if the contractor's financial position deteriorated or he entered into the process of restructuring / bankruptcy / liquidation.

Assets are excluded from the accounting books when the rights to obtain income from them have expired or have been transferred and the majority of risks and all benefits of ownership have been transferred.

The Company classifies all financial liabilities as measured after initial recognition at amortized cost.

The Company does not use hedge accounting.

4.15. Credits, borrowings and debt securities (bonds)

At the time of the initial recognition, all bank credits, borrowings and debt securities are recognised at fair value, decreased by the costs associated with obtaining a credit or loan.

After the initial recognition, interest-bearing credits, borrowings and debt securities are measured at amortized cost using the effective interest rate method.

In the event of a change in financing terms, the Company assesses whether the change is material. In the event of material changes, the Company removes from the balance sheet liabilities previously recognized and recognizes liabilities according to the materially changed terms. If the change is not material, the adjustment to the amortised cost measurement is made through the financial result, while the existing amortised cost rate remains unchanged. In the case of material changes, any costs incurred relating to the change are recognised in the profit and loss report.

4.16. Lease

The Company applies exemptions related to the recognition of low-value asset leases (not exceeding PLN 15,000) and short-term leases (not exceeding 12 months). These transactions are presented within the cost of goods sold as costs of external services. In cases where it is not be possible to determine the interest rate of the lease, the Company applies the marginal interest rate of the lessee, which is on average 4.1%.

At the onset of the contract the Company determines whether a given contract contains a lease. A contract constitutes a lease if it conveys the right to control the use of an underlying asset for a given period in exchange for remuneration.

At the onset of the lease the Company recognizes an underlying right-of-use asset and a lease liability. At the onset date the Company measures the lease liability as the present value of the lease payments that have not been paid at that date.

The cost of the underlying right-of-use asset includes the amount of the initial assessment of the lease liability and

i. any lease payments made on or before the onset date, less all incentives received from the lease, and
ii. any initial direct costs, and
iii. an estimate of the costs to be incurred in relation to the dismantling and removal of the underlying asset, restoring the site on which it was located or the renovation of the underlying asset to restore it to the condition required by the terms of the lease.

After the onset date of the lease the Company measures the lease liability through:

i. an increase in the carrying amount to reflect interest on the lease liability,
ii. a decrease in the carrying amount to include the lease payments paid in,
iii. an update to the balance sheet valuation to include any re-assessment or change of lease to account for substantially updated fixed lease payments.

At the onset of the lease the Company recognizes an underlying right-of-use asset and a lease liability:

i. less accumulated amortization (depreciation) write-offs and total impairment losses and
ii. adjusted for any revaluation of the lease liability.

The Company depreciates the right-of-use assets from the date of the beginning of leasing until the end of the duration of use or until the end of the lease. If depreciation is recognized by the end of the duration of use, the Company applies depreciation rates appropriate for the given group of assets, convergent with the rates applicable for fixed assets.

The lease agreements, under which the lessor substantially retains all the risks and benefits of the ownership of the leased asset, are classified as operating lease agreements. The lease instalments are recognised as operating revenues in the income statement on a straight-line basis over the lease term.

The Company has decided to include the right-of-use assets as part of the same balance sheet positions they would be presented in if the Company owned these assets. The right-of-use assets have been presented in the line item "Tangible fixed assets". Lease liabilities have been presented in the line item "Bank loans, borrowings and other sources of financing" in the long-term or short-term part of the balance sheet – depending on the settlement date. In the statement of cash flows the Company presents outflows related to leases recognized in the balance sheet. Cash flows related to short-term or low-value leases are presented under "Operating cash flows". Additional disclosures regarding leasing have been presented in notes 7.4, 7.11, 11 and 20.

4.17. Asset (or disposal groups) held for sale

Tangible fixed assets (or disposal groups) are classified as held for sale if their carrying amounts are recovered through a sale transaction and the sale is considered to be highly probable. They are recognised at the lower of the following two amounts: their carrying amount and fair value less costs of sales.

4.18. Other assets

Prepayments are recognised in the amount of expenses already incurred which relate to the next reporting periods after the balance sheet date. These costs are presented at face value after ensuring that these costs will benefit the Company in the future. Interim prepayments include mainly:

- insurance,
- subscriptions,
- rents paid in advance that do not quality as lease.

4.19. Shares in subsidiaries

Shares in subsidiaries are valued at cost. Impairment write-offs for shares held in subsidiaries are reversed when there are no premises for the depreciation up to the amount of the estimated recoverable amount not higher than the value which would have been recognised if there had not been any depreciation recognised.

4.20. Deferred income

Deferred income is recognised while taking into account the principle of a prudent valuation. These include primarily the equivalent of received or due funds for benefits that will be performed in the next reporting periods.

4.21. Trade receivables

Short-term trade liabilities are presented under amortized cost. Other financial liabilities, which are not financial instruments measured at fair value by the financial result, are measured in accordance with the depreciated cost using the effective interest rate method.

4.22. Other liabilities

Other liabilities include, in particular, liabilities arising from the purchase of tangible fixed assets, liabilities under VAT and other liabilities under taxes, customs and social security, as well as liabilities under financial guarantees. Other liabilities are recognized under amortized cost.

4.23. Deposits received under construction contracts

Deposits under construction contracts result from the amounts received within the construction contracts. The Company retains the deposits from sale invoices issued by the subcontractors as the implementation of services progresses or they are provided in a singular payment by the subcontractors. The deposits are settled collectively with the finalization of the contract or after the warranty period.

The deposits under construction contracts are recognised and disclosed according to the amounts originally invoiced or paid by the suppliers. In the subsequent periods deposits are recognised in the amortized cost. The influence of the measurement in the depreciated cost is recognised as financial revenues/expenses.

4.24. Employee benefit liabilities

Short-term employee benefits paid by the Company include:

- wages, salaries and social security contributions,
- short-term compensated absences, if absences are expected to occur within 12 months of the end of the period in which employees performed their related work,
- profit-sharing and bonuses payable within 12 months after the end of the period in which the employees were performing work related to them,
- non-cash benefits for currently employed employees.

Short-term employee benefits, including payments to defined contribution plans, are recognised in the period in which the entity received the benefit from the employee, and in the case of distributions from profit and bonus, if the following conditions are met:

- the entity has a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

The Company recognises the expected costs of short-term employee benefits in the form of paid absences in the case of accumulated paid absences (i.e. those for which allowances are transferred for future periods and can be used in the future if they have not been fully utilised in the current period) and in the case of non-accumulated paid absences (which give rise to obligations on the part of the Company as of their occurrence).

Pursuant to the Collective Bargaining Agreement the employees of the Company are entitled to retirement and disability severance payments. Retirement benefits are paid once at the time of retirement. The amount of benefit depends on the period of employment in the Company and its legal predecessors (provided that the Company generates a net profit 2 years in a row, otherwise the amount of the benefit is a one-month salary). The benefit is affected by the above-mentioned seniority within the Company, as well as the average salary in the Company from December of the previous year. The Company has a provision for future liabilities related to retirement benefits in order to allocate costs to the periods to which they relate. According to IAS 19, retirement benefits belong to the specified post-employment benefits programs. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data.

Liabilities under retirement are presented under liabilities due to employee benefits.

Post-employment benefits in the form of defined benefit plans (retirement benefits and severance payments) and other long-term employee benefits (including long-term invalidity pensions) are determined using the projected unit credit method from the actuarial valuation carried out at the end of the reporting period.

Actuarial gains and losses related to defined post-employment benefit plans are presented in other comprehensive income. However, profits and losses related to other long-term employee benefits are recognised in the current income statement of the reporting period.

4.25. Provisions

Provisions are created when the Company is burdened with the existing liability (legal or customary anticipated) resulting from past events and when it is probable that the fulfilment of this liability will result in the necessity of the economic benefits outflow, and the amount of this liability can be reliably estimated. If the Company expects that the costs covered by the provision will be reimbursed, for example under the insurance contract, then the reimbursement is recognised as a separate component of assets, but only when it is certain that the reimbursement will actually occur. The costs related to a given provision are stated in the income statement after the reduction by any reimbursement.

When the impact of the value of money is significant, the value of the provision is determined by discounting the forecast future cash flows to the current value, using the discount rate reflecting the current market estimates of the value of money, as well as the possible risk related to a given liability. If a method of discounting was applied, the increase in liabilities due to the passage of time is recognised as financial costs.

4.26. Reserve capital from surplus of bonds convertible into shares

The Company recognises separate components of financial instruments which establish its financial liability and provide their holders with an option to convert into Parent Company's equity instrument. The Company is an issuer of bonds convertible into shares of the Company. As at the date of issuing bonds or at the date of material change of terms of issue, the Company measured the equity component and the liability component of the bonds issued. The liability component was measured at fair value. The equity component was determined as the final (residual) value of the amount remaining after deducting separately determined value of liability component from the fair value of the entire instrument. The Company does not change the qualification of the liability and equity component depending on the change of probability of executing the conversion option.

4.27. Revenues from contracts with Customers

The Company recognizes a contract with the customer upon the fulfilment of all of the following conditions:

- the parties to the contract have concluded the contract (in writing, orally or in accordance with other customary commercial practices) and are required to perform their obligations;
- the Company is able to identify the rights of each party to the contract regarding goods or services to be delivered;
- the Company is able to identify the terms of reimbursement regarding goods or services to be delivered;
- the contract has commercial substance (that is, it is expected that as a result of the agreement the risk involved, the schedule or the amount of future cash flows of an entity may change); and
- it is probable that the Company will receive remuneration to which the Group will be entitled to in exchange for goods or services that will be provided to the customer.

The Company combines two or more contracts that were concluded simultaneously or almost simultaneously with the same client (or entities related to the client) and recognizes them as one contract if at least one of the following criteria is met:

- the contracts are negotiated as a package and concern the same commercial purpose;
- the amount of remuneration due under one contract depends on the price or performance of another contract; or
- goods or services promised under the contracts (or some goods or services promised in each contract) constitute a single performance obligation.

The Company recognizes the amendment to the contract as a separate contract, if simultaneously: the scope of the contract increases due to the addition of promised goods or services that are considered separate, and the price specified in the contract increases by the amount of remuneration reflecting the individual promised sale prices of additional promised goods or services, and any appropriate adjustments to that price are made in order to account for the circumstances of the specific contract.

At the time of conclusion of the contract, the Company assesses the promised goods or services in the contract with the client and identifies as an obligation to perform the service any promise made to the client to provide the following:

- goods or services (or package of goods or services) that can be separated; or
- separate groups or goods or services which are essentially the same and for which the transfer to the client is the same.

The goods or service promised to a customer is separate if both of the following conditions are met:

- the customer may benefit from goods or services either directly or by connection to other resources that are readily available (i.e. the goods or services may be separate); and
- an entity's obligation to provide goods or services to a customer can be identified as separate from other obligations specified in the contract (i.e. the goods or service is separate within the contract).

The Company recognizes the revenue when an obligation to perform the service is fulfilled (or when the performance of service is in progress) by transferring the promised goods or services (i.e. a component of an asset) to the customer. An asset is transferred when the customer obtains control of that asset.

For each obligation to perform the service, the Company determines at the time of the conclusion of the contract whether it will meet the obligation to perform the service over time or whether it will meet it at a specific moment. If the Company does not meet the obligation to perform the service over time, the obligation to perform the service is fulfilled at a certain time.

The Company uses one method to measure the degree of fulfilment of the obligation for each performance obligation fulfilled over time and applies this method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, the Company re-assesses the degree of total fulfilment of the obligation to perform the service performed over time.

The Company uses input-based methods to measure the degree of compliance. Revenues are recognized based on activities or expenditure incurred in fulfilling the performance obligation in relation to the total expected expenditure necessary to fulfil the performance obligation. The stage of completion is measured as the share of costs incurred from the date of the contract to the date of determining the revenue in the estimated total costs of providing the service or the share of the work performed in relation to the total work.

After fulfilling (or in the course of fulfilling) the obligation to perform the service, the Company recognizes as income the amount equal to the transaction price (excluding estimated values of variable remuneration, which are limited), which was assigned to this obligation to perform the service.

In order to determine the transaction price, the Company takes into account the terms of the contract. The transaction price is the amount of remuneration which, as expected by the Company, it will be entitled to in exchange for the transfer of promised goods or services to the customer, excluding amounts collected on behalf of third parties. The remuneration specified in the contract with the client may include fixed amounts, variable amounts or both.

When setting the transaction price, the Company adjusts the promised amount of remuneration by changing the value of money over time, if the payment schedule agreed by the parties to the contract (explicitly or implicitly) gives the Company significant benefits or generates significant financial costs from financing the transfer of goods or services. In such circumstances, the Company recognizes that the contract contains a significant financing component. An important element of financing may occur irrespective of whether the financing promise is clearly stated in the contract or results from payment terms agreed by the parties to the contract.

The Company attributes to the obligations to perform the services specified in the contract any subsequent changes in the transaction price on the same terms as when the contract was concluded. The amounts assigned to the obligations to perform the service are recognized as revenue or as a decrease in revenue in the period in which the transaction price has changed.

If the Company, as one of the parties to the contract, fulfilled the obligation, the Company presents the contract as an asset under the contract (under "Receivables under valuation of contracts") or a contract liability (under "Liabilities under valuation of contracts") - depending on the ratio between the entity's status of performance of the obligation and the invoices issued. The Company presents all unconditional rights to receive remuneration separately as trade receivables.

The Company presents received advance payments under the item regarding the valuation of contracts.

If another entity is involved in the delivery of goods or services to the client, the Company determines whether the nature of the promise constitutes an obligation to perform a service that entails the provision of specific goods or services (in this case the Company is the principal) or on contracting another entity to provide these goods or services (in this case the Company is an intermediary).

The Company is the principal if it exercises control over the promised goods or services before passing it on to the customer. The Company, however, does not have to act as the principal if it obtains the legal title to the product only temporarily before it is transferred to the customer. The Company appearing in the contract as the principal may fulfil the obligation to perform the service or may entrust the fulfilment of this obligation or part thereof to another entity (e.g. subcontractor) on its behalf. If the Company acting as the principal fulfils the obligation to perform the service, it recognizes the revenue in the amount of the remuneration to which - as anticipated by the entity - it will be entitled to in exchange for the transferred goods or services.

The Company acts as an intermediary if its obligation to perform the service entails ensuring the delivery of goods or services by another entity. If the Company acting as the principal fulfils the obligation to perform the service, it recognizes the revenue in the amount of any fee or commission to which - as anticipated by the entity - it will be entitled to in exchange for ensuring the delivery of goods or services by another entity. The fee or commission due to the entity may be the amount of remuneration that the Company retains after paying remuneration to another entity in exchange for goods or services provided by that entity.

4.28. Taxes

Current tax

The liabilities and receivables for the current tax for the current period and previous periods are evaluated in the amount of expected payment for tax authorities (subject to reimbursement from tax authorities), using the tax rates and regulations, which were legally or actually applicable as at the balance sheet date.

Deferred tax

For the purpose of financial reporting, the deferred tax is provided, using the balance liability method in relation to all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their balance sheet value presented in the financial statement.

Assets/provisions for deferred tax are recognised in relation to all negative / positive temporary differences:

- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures - except when the dates of reversal of temporary differences are subject to investor control and when it is probable that the temporary differences will not be reversed in the foreseeable future.

The balance sheet value of the assets' component due to the deferred income tax is verified on every balance sheet date and reduced to the extent that it is no longer probable that the taxable income sufficient for a partial or complete realisation of the assets' component due to the deferred income tax will be achieved. An unrecognised deferred tax asset is re-assessed as at each balance sheet date and is recognised at the amount reflecting the likelihood of achieving the future taxable income allowing to recover this component of assets.

The deferred tax assets and provisions for the deferred tax are evaluated with the use of the tax rates that are expected to be applicable in the period, in which the assets' component is realised or the provision is released, the basis for which will be tax rates (and tax regulations) applicable at the balance sheet date, or those which will certainly be effective as at the balance sheet date in the future.

The income tax on items recognised outside the profit or loss is recognised outside the profit or loss: in other in other comprehensive income related to the items recognised in other comprehensive income or directly in the equity, relating to the items recognised directly in the equity.

The Company offsets deferred tax assets and deferred tax liabilities if and only if they have an enforceable legal title to compensate for receivables with current tax liabilities and deferred income tax is connected with the same taxpayer and the same tax authority.

If in the opinion of the Company it is probable that the Company's approach to the tax issue or group of tax issues will be accepted by the tax authority, the Company determines taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates taking into account the approach to taxation planned or applied in the tax return. While assessing this probability, the Company assumes that the tax authorities eligible to audit and challenge the tax approach will carry out such control and will have access to all information.

If the Company determines that it is not probable that the tax authority will accept the Company's approach to the tax issue or group of tax issues, then the Company reflects the effects of uncertainty in accounting terms of tax during the period in which this was determined. The Company recognizes an income tax liability using one of the following two methods, depending on which of them better reflects the way in which this uncertainty can materialize:

- the Company determines the most likely scenario - it is a single amount among the possible outcomes, or
- the Company recognizes the expected value - it is the sum of probability weighted amounts among the possible results.

5. Significant values based on professional judgement and estimates

Below there is a description of basic assumptions about the future and other key sources of uncertainty as at the balance sheet date which are associated with a high risk of a significant adjustment of the carrying amounts of assets and liabilities in the next financial year.

Periods of economic use of tangible fixed assets, note 4.3

The Company verifies the anticipated economic useful lives of items under tangible fixed assets at the end of each annual reporting period.

Fair value measurement and the valuation procedures

Investment property is measured by the Company at fair value for the purpose of financial reporting. The valuation has been carried out by external qualified property appraisers. The valuations are prepared with the application of income or comparative methods. The Company applies the revaluation model for the following class of assets: real estate and structures. In case the revaluation needs to be performed, the Company obtains a fair value measurement for particular locations of real estate and objects. The revaluation is performed for the entire class of assets when the fair value differs significantly from the carrying amount. The valuations are prepared with the application of income or comparative methods. Details on the performed valuations are described in note 11.3.

Impairment of assets

The Company performs the impairment testing of tangible fixed assets and shares under circumstances that indicate the possibility of the impairment of assets. The tests require an estimation of the value-in-use of a cash-generating unit to which these tangible fixed assets belong. The value-in-use estimation involves a calculation of future cash flows generated by the cash-generating unit and it requires to determine the discount rate to be used in order to calculate the current value of these cash flows.

Asset due to deferred tax, note 8.3

The Company recognizes a deferred tax asset based on the assumption that the future tax profit will be achieved to allow its use. The deterioration of the future tax results may render this assumption unjustified.

Revenue recognition, note 15

The gross margins of the contracts in progress are determined based on the formalized process called the Project Review as the difference between the cost of sales and the estimated total contract costs (the total amount of the costs incurred and the estimated costs until the completion of the contract). Verification of the estimated costs until the completion of the contract is performed during the Project Review on a monthly, quarterly or semi-annual basis, or with other frequency depending on the contract type. The costs until the completion of the contract are determined by competent teams who are substantively accountable for the implementation of a given area based on their best knowledge and experience.

The Company applies the percentage progress method for the settlement of long-term contracts. The application of this method requires of the Company to provide an estimation of the ratio of the works already performed to all services to be performed. The progress of works is measured based on the input-based method, i.e. as the share of costs incurred so far in the total expected cost budget of the contract. Based on the updated contract budgets and the status of construction contracts, the Company recognizes the effects of the changes in estimates in the financial results of the period.

Valuation of employee benefits liabilities – retirement and pension payments

Provisions for employee benefits have been measured with the application of actuarial methods. Assumptions adopted for this purpose are presented in note 24.

Provision for warranty repairs, note 23

Provisions for liabilities under warranty repairs are established during the project implementation in proportion to sales revenues. The amount of provisions depends on the type of construction services provided and it constitutes a specified percentage of the value of sales revenues from a given contract. However, the value of provisions for warranty repairs may be subject to individual analysis (including the opinion of the manager in charge of a given construction site) and it may be increased or decreased in duly justified cases. The provisions can be used within the first 3-5 years after the completion of the investment in proportions corresponding to the actually incurred costs of repairs.

Provisions for court cases, note 23

Provisions related to ongoing judicial proceedings are established when a lawsuit has been filed against a given entity and the probability of a judgement adverse for the entity is greater than the probability of a favourable judgement. The probability of either outcome is assessed in the course of the judicial proceedings and on the basis of legal opinions from attorneys. The established provisions are charged to other operating costs.

Provision for penalties, note 23

The estimates of contractual penalties are provided by technical services assigned to the implementation of the construction contract, in cooperation with the legal department that interprets the provisions of the contract. Provisions for penalties are established when there is a high risk of the imposition of a penalty by the ordering party due to improper performance of the contract.

Provision for the settlement price of contracts, note 23

Provisions for the settlement price of contracts relate to the final settlement of the road contracts.

Provisions for projected losses on construction contracts, note 23

As at each balance sheet date, the Company updates the estimates of the total revenues and total expenses related to projects in progress. The projected total loss on a contract is recognized as an expense in the period in which it has been recognized.

Provision for sureties, note 23

A surety is recognized in the accounting records as a provision when at the balance sheet date there is a high likelihood that the borrower will not be able to repay their debts.

Write-off of receivables and materials

As at each balance sheet date, the Company analyses individual conditions for the impairment of trade receivables such as disputable receivables, receivables under court proceedings, receivables from companies in bankruptcy or liquidation and others. Based on this, the Company makes individual write-offs of receivables and the remaining receivables are included in the write-off of anticipated credit losses. The method for calculating write-offs is described in note 4.14.

At each balance sheet date, the Company updates the write-off of redundant materials, while taking into account the remaining time in the warehouse and the potential for future use.

6. Reporting segments

For the management purposes the Company has been divided into segments based on the manufactured products and the services rendered. Due to the failure to meet the quantitative thresholds set out in IFRS 8, the Company combined information on the following segments: Industrial Construction and

(in thousands of PLN)

Infrastructure Construction with the data presented in the segment Other Activity. There are therefore the following reporting segments:

Power sector	Services related to the power sector. General contractor in the construction of facilities in the power sector, design, production and sales of power boilers, maintenance services for the permanent and comprehensive operation of power plants, combined heat and power plants and industrial facilities.
Oil, gas and chemicals	General contractor in the construction of facilities in the chemical sector. Assembly of equipment for the chemical and petrochemical industries, prefabrication and assembly of steel structures, technological pipelines, storage tanks and pipelines, prefabrication and assembly of furnaces for the refinery industry. Implementation of environmental protection projects. Our customers are chemical plants, refineries, petrochemicals and companies from the gas industry.
Other activity	industrial and infrastructure construction, maintenance and transportation services, rental, lease, laboratory tests, equipment service, other services not included in other segments, share in profits/(losses) of limited partnerships in which the Company holds shares.

The Management Board monitors the operating results of individual segments in order to make decisions regarding the allocation of resources, to assess the effects of this allocation and operating results. In order to assess operating results of the segments, the Management Board uses the results on operating activity and the gross result of the segment. Income tax is monitored at the Company level and it is not allocated to individual segments.

Transaction prices used during transactions between operating segments are determined by the market terms for transactions with unrelated parties.

The below tables present data on revenues and profits of individual operating segments of the Company for the year ended on 31 December 2020 and the year ended on 31 December 2019. The Management Board of the Company regularly monitors the results of the segments, however there is no ongoing assessment of the assets and liabilities of the segments. Therefore, the below tables do not include the division of assets and liabilities by segments.

The data concerning individual segments are presented according to the same principles applied in the process of the preparation of the financial statements.

Year closed on 31 December 2020	**Power sector**	**Oil, gas and chemicals**	**Other activity**	**Total activity**
Revenues				
Sales to external clients	383,988	291	41,097	425,376
Sales between the segments	–	–	–	–
Total segment sales revenues	383,988	291	41,097	425,376
Results				
Profit / (loss) on operating activities of the segment	37,674	291	(11,182)	26,783
Financial income and costs balance	(201)	138	65,038	64,975
Gross profit / (loss) from the segment	37,473	429	53,856	91,758

Year closed on 31 December 2019	**Power sector**	**Oil, gas and chemicals**	**Other activity**	**Total activity**
Revenues				
Sales to external clients	470,125	220	54,513	524,858
Sales between the segments	–	–	–	–
Total segment sales revenues	470,125	220	54,513	524,858
Results				
Profit / (loss) on operating activities of the segment	26,771	5,213	26,128	58,112

(in thousands of PLN)

Financial income and costs balance	(27)	–	31,334	31,307
Gross profit / (loss) from the segment	26,744	5,213	57,462	89,419

7. Revenues and costs

7.1. Sales revenues by categories

Revenue by type of goods or services

Year closed on 31 December 2020	**Power sector**	**Oil, gas and chemicals**	**Other activity**	**Total activity**
Revenues from the sales of construction and other services	383,981	252	21,966	**406,199**
Revenue from sales of products	–	–	–	–
Revenues from the sales of goods and materials	6	39	360	**405**
Revenues from rental	1	–	18,771	**18,772**
Total sales revenues	**383,988**	**291**	**41,097**	**425,376**

Year closed on 31 December 2019	**Power sector**	**Oil, gas and chemicals**	**Other activity**	**Total activity**
Revenues from the sales of construction and other services	470,124	186	34,754	**505,064**
Revenue from sales of products	–	–	–	–
Revenues from the sales of goods and materials	–	34	85	**119**
Revenues from rental	1	–	19,674	**19,675**
Total sales revenues	**470,125**	**220**	**54,513**	**524,858**

The first two items in the tables below include the revenues from the contracts with clients in line with IFRS 15.

The revenues from the sales of goods and materials are in large part generated at a point in time. On the other hand, the revenues from the sales of services are revenues generated over time.

Geographical information

During 2020 and 2019, the Company did not generate any revenues outside the country. The company classifies the sales as domestic or foreign sales based on the location of the service or the delivery.

7.2. Key recipients

In 2020 the Company had two recipients who generated over 10% of sales revenues. The sales to these recipients amounted to PLN 317.3 million and they are presented in the Power Sector segment.

7.3. Other significant events regarding ongoing contracts

In 2020 the Company implemented the following strategic the following contracts in the power sector:

- contract for the construction of a new power unit at the Żerań CHP Plant
- contract for the construction of a new power unit for Zakłady Azotowe Puławy
- contract for the construction of two new power units at the Dolna Odra Power Plant,

The Żerań CHP Plant

Since June 2017 the Company (within a consortium with Mitsubishi Hitachi Power Systems Europe GmbH) has been involved in a project for the delivery and assembly of a gas and steam power unit at the Żerań CHP Plant in Warsaw with the electricity generation capacity of 497 MW and the thermal input at the level of 326 MW, together with the installations and auxiliary equipment. The total value of the contract on the day of its conclusion was approximately PLN 982.28 million and EUR 111.93 million, of which approximately 26% is the Group's share. During the financial year 2018 it was necessary to create an additional provision for costs in the amount of approximately PLN 57.6 million. With the progress in the implementation of the contract, the provision for losses is gradually deployed.

On 30 January 2019 there was a conclusion of Annex 1 between the ordering party and the consortium in charge of the contract execution. Pursuant to the annex, the scope of the contract was extended. The contract value in the scope of the Group increased by PLN 5,426 thousand. The annex also extended the deadline for the signature by the ordering party of the protocol for the handover of the unit for operation. This will take place within 37 months from the date of the signature of the contract.

On 16 July 2019 there was a conclusion of Annex 2 between the ordering party and the consortium in charge of the contract execution. Pursuant to the annex, the deadline for the signature of the handover protocol of the unit for operation that the contractor had committed to was extended to 40 months and 21 days from the date of the signature of the contract. This change was due to the occurrence of typhoon Jebi on 4 September 2018 in Japan. As a result of severe weather conditions, the storage site for the components of the gas turbine equipment was affected and the components were damaged, making it impossible for the contractor to fulfil the contractual obligations in terms of the guarantee of quality and warranty for physical defects. The ordering party and the contractor agreed that the event constituted force majeure and that an extension to the deadline for the contract finalization to allow for the removal of damage was duly justified.

On 22 October 2019, Annex 3 was concluded between the ordering party and the consortium that resulted in an increase to the remuneration to the extent attributable to the Group in the amount of PLN 2,492 thousand.

On 17 April 2020, a Pre-Judicial Settlement Agreement was signed between the ordering party and the consortium, granting the Contractor additional remuneration resulting from the indexation of prices. On 3 August 2020, an Agreement was signed amending the content of the Settlement of 17 April 2020 treated as Annex 4 to the Contract, under which the contract price to the extent attributable to the Group increased by PLN 19,598 thousand.

On 6 November 2020, Annex 5 was signed between the ordering party and the consortium, extending the scope of the project by additional works and replacement works without affecting the contract price attributable to the Group. The total expected loss on the implementation of this contract decreased and as at 31 December 2020 it was PLN 36.1 million.

Puławy CHP Plant

On 25 September 2019, an agreement was concluded between Grupa Azoty Zakłady Azotowe "Puławy" S.A. and a consortium comprising: Polimex Mostostal S.A. (as consortium leader), Polimex Energetyka Sp. z o.o. and SBB ENERGY S.A. The subject of the Agreement is the construction of a complete Thermal and Condensing Power Unit based on coal fuel, with closed cooling system with wet fan coolers, with gross electrical power capacity in the range of 90-100 MWe, with thermal power supplied with fuel to the furnace of the boiler of the Unit lower than 300 MWt, with thermal power capacity in technological steam of at least 250MWt, operating on steam parameters. The net remuneration for the performance of the Assignment is flat rate and it amounts to PLN 1,159,900 thousand, of which approximately 99% is attributable to the Group. Pursuant to the Agreement, the contractor is obliged to hand over the power unit for operation to the ordering party within 36 months from the date indicated by the ordering party as the date of commencement of the work. On 16 December 2019 there was a conclusion of an agreement with Fabryka Kotłów SEFAKO S.A., the subject of which is the preparation by SEFAKO of the basic design and the implementation documentation, prefabrication and delivery of a complete boiler together with the accessories and protections. The net value of this subcontracting order is PLN 179,900 thousand. On 20 December 2019 there was a conclusion of an agreement with Siemens AG, the subject of which is the production and delivery by Siemens of a steam turbine generator set, feed water heaters and spare parts. The net remuneration was determined at the level of EUR 17,457 thousand. On 31 December 2019, the following agreements were concluded (i) between Polimex Mostostal S.A. and Bank Ochrony Środowiska S.A. ("BOŚ Bank") - a guarantee agreement for the issuance of a performance bond securing the performance of the contract in the amount of PLN 59,650 thousand with a validity period not exceeding 22 November 2022 (ii) between Polimex Mostostal S.A. and Bank Gospodarstwa Krajowego ("BGK") - Annex 3 to Loan Agreement for Guarantee Lines and Related Revolving and Non-revolving Loans dated May 31, 2017, as amended, establishing the terms and conditions for the issuance of a performance bond for the Puławy Contract in the amount of PLN 46,340 thousand. As the conditions precedent have been fulfilled, on 31 January 2020 BOŚ Bank and BGK issued, at the Group's request, performance bonds for the amounts shown above.

Dolna Odra Power Plant

(in thousands of PLN)

On January 30, 2020 an agreement was signed between PGE Górnictwo i Energetyka Konwencjonalna S.A. and a consortium consisting of: General Electric Global Services GmbH (as consortium leader), General Electric International Inc. and Polimex Mostostal S.A. The subject of the Agreement is a turnkey construction of two gas and steam power units (number 9 and 10), provision of complete sets of power generating equipment and their auxiliary installations and any other technological, mechanical, electrical and automation installations, along with associated facilities for PGE Górnictwo i Energetyka Konwencjonalna S.A. Dolna Odra Power Plant Complex Branch, covering all works, supplies and services, including development of the design documentation. Pursuant to the Agreement, the Contractor is obliged to start the implementation of the Agreement immediately after its conclusion and to finalize the Assignment by 11 December 2023. The remuneration for the performance of the Assignment is fixed and to the extent attributable to the Group amounts to PLN 1,515,097 thousand net. On 15 December 2020, Annex 2 to the Consortium Agreement was concluded, which approved the division of responsibility for the prefabrication of pipelines by shifting a part of Implementation Stage 10 from Polimex Mostostal to General Electric and thus reduced Polimex's remuneration by PLN 8,307 thousand net. The remuneration for the performance of the Assignment attributable to the Company is currently PLN 1,506,790 thousand net, and the value of the entire contract assigned to the consortium is PLN 3,637,713 thousand net.

Pursuant to the provisions of the Agreement, the Contractor will provide the Ordering Party with a basic quality guarantee for the subject of the Agreement covering a period of 24 months, as well as an extended warranty for the construction works for the period of 60 months. On 28 February 2020, Polimex Mostostal S.A. entered into an agreement with PKO BP for the issuance upon the order of Polimex Mostostal of a bank guarantee for the reimbursement of the advance payment. Pursuant to the terms of the Agreement, PKO BP provided a guarantee in the amount of PLN 47,360 thousand valid until 31 March 2023. The above guarantee was replaced with a bank guarantee issued on February 11, 2021 upon the order of Polimex Mostostal on behalf of the Contractor by INTESA SANPAOLO S.A. Branch in Poland for the reimbursement of an advance payment, amounting to PLN 47,360 thousand with the expiry date of 31 March 2023. On 11.02.2021 Polimex Mostostal provided the Ordering Party with a performance bond issued at the request of Polimex Mostostal on behalf of the Contractor by the bank INTESA SANPAOLO S.A. Branch in Poland for the amount of: PLN 135,335 thousand with an expiry date of January 11, 2024. On 10.02.2021 Polimex Mostostal provided the Ordering Party with a performance bond issued at the request of Polimex Mostostal on behalf of the Contractor by STU Ergo Hestia S.A. for the amount of PLN 50,000 thousand with expiry date of 11 January 2024.

7.4. Costs classified by type

	Year ended on 31 December 2020	Year ended on 31 December 2019
Depreciation	7,782	7,768
Use of materials and energy	22,416	30,152
External services including construction	322,860	423,213
Taxes and payments	3,793	3,292
Costs of employee benefits	51,890	37,650
Other classified costs	2,073	8,006
Total costs classified by type	**410,814**	**510,081**
Items included in the general administration expenses	(34,705)	(33,495)
Value of goods and materials sold	183	53
Change in finished goods	–	17
Cost of goods sold	**376,292**	**476,656**

The costs of short-term leasing and leasing of low-value assets incurred in 2020 amounted to PLN 4,784 thousand (PLN 2,485 thousand in 2019). These costs are presented as a component of costs of external services.

The costs related to the real estate on which the Company generates rental income amounted in 2020 to: PLN 12,943 thousand, while in 2019 it was PLN 12,569 thousand.

7.5. Depreciation costs included in the profit and loss account

	Year ended on 31 December 2020	Year ended on 31 December 2019

Items presented as cost of goods sold	**7,122**	**7,032**
Depreciation of tangible fixed assets	6,949	6,778
Depreciation of intangible assets	173	254
Items included in the general administration expenses	**660**	**736**
Depreciation of tangible fixed assets	621	692
Depreciation of intangible assets	39	44
Total depreciation and write-offs	**7,782**	**7,768**
Total depreciation of tangible fixed assets	7,570	7,470
Total depreciation of intangible assets	212	298

7.6. Costs of employee benefits

	Year ended on 31 December 2020	Year ended on 31 December 2019
Remuneration	44,050	32,032
Social insurance costs	6,296	4,598
Retirement benefit costs	362	348
Write-offs for the Company Social Benefits Fund	435	301
Other	747	371
Total costs of employee benefits	**51,890**	**37,650**

7.7. Profit / (loss) on impairment of assets

	Year ended on 31 December 2020	Year ended on 31 December 2019
Write-offs on receivables	(174)	20,736
Write-offs on borrowings	155	(761)
Profit / (loss) on impairment of financial assets	**(19)**	**19,975**

7.8. Other operating revenues

	Year ended on 31 December 2020	Year ended on 31 December 2019
Profit on sale of fixed assets	514	239
Dissolved provisions for litigations	8,383	11,114
Dissolved provisions for the settlement price of contracts	5,994	2,363
Dissolved provisions for warranty repairs	65	1,392
Profit on revaluation of non-financial fixed assets to fair value	–	1,428
Profit on revaluation of investment property to fair value	400	995
Penalties and compensations received	331	2,208
Waiver on liabilities	3,236	4,825
Other	666	1,154
Total other operating revenues	**19,589**	**25,718**

7.9. Other operating costs

	Year ended on 31 December 2020	Year ended on 31 December 2019
Revaluation write-offs for non-financial fixed assets	4,981	415
Penalties and compensations	237	940
Legal costs	991	629
Change in the terms and conditions of the lease agreements	470	–
Other	487	304
Total other operating costs	**7,166**	**2,288**

(in thousands of PLN)

7.10. Financial income

	Year ended on 31 December 2020	Year ended on 31 December 2019
Revenues from bank interests and borrowings	4,047	4,790
Income due to the interest on late payment of receivables	1,084	50
Profit due to modification of financial instruments related to a successful lawsuit	–	14,774
Revenues from dividends	15,946	4,873
Profit on sales of financial assets	4	–
Foreign exchange profits	–	330
Valuation of long-term settlements with amortized costs	2,201	2,436
Dissolution of provisions for the financial costs	30	297
Dissolution of write-offs of shares	1,938	36,838
Share in profits of limited partnerships	61,155	7,518
Change to the terms of bond issue	2,793	–
Profit due to change in expected cash flows related to borrowings	976	–
Other	–	180
Total financial income	**90,174**	**72,086**

In 2020 the value of PLN 61,155 from shares in the profits of limited partnerships consist of shares in the profits of the companies: Mostostal Siedlce Sp. z o.o. Sp. k., Polimex Budownictwo Sp. z o.o. Sp. k. and Polimex Operator Sp. z o.o. Sp. k.

The dividend income recognized in 2020 related to dividends granted from subsidiaries: Polimex Opole Sp. z o.o. Sp.k. (in the amount of PLN 7,946 thousand), Naftoremont - Naftobudowa Sp. z o.o. (in the amount of PLN 7,500 thousand) and Stalfa Sp. z o.o. (PLN 500 thousand).

7.11. Financial costs

	Year ended on 31 December 2020	Year ended on 31 December 2019
Interest on bank loans and borrowings	3,796	5,859
Interest and commissions on bonds	15,699	16,602
Interest on other liabilities	109	416
Bank charges on guarantees and loans	1,186	1,072
Foreign exchange losses	513	–
Financial costs due to lease agreements	734	355
Provisions for financial costs	–	301
Share in losses of limited partnerships	–	16,174
Costs of material change to the terms of bond issue	2,956	–
Costs of early repayment of loans	206	–
Total financial costs	**25,199**	**40,779**

8. Income tax

8.1. Current income tax

The main components of the tax burden for the year ended on 31 December 2020 and 31 December 2019 are as follows:

	Year ended on 31 December 2020	Year ended on 31 December 2019
Profit and loss account		
Current income tax liabilities	(19)	(1)
Foreign income tax for the previous years	–	(1,033)
Deferred income tax	(30,345)	5,278
Tax burden due to continued business activity recognized in the profit and loss account	**(30,364)**	**4,244**
Interim comprehensive income statement		

Deferred income tax due to revaluation of land and buildings	–	(19)
Deferred income tax from valuation of liabilities due to post-employment benefits	1	18
Tax burden due to continued business activity recognized in the statement of comprehensive income	**1**	**(1)**

Income tax on the pre-taxed profit differs in the following manner from the theoretical amount that would be obtained using a weighted average tax rate (applicable to the profit of the Company):

	Year ended on 31 December 2020	Year ended on 31 December 2019
Profit / (loss) before tax	91,758	89,419
Tax at the statutory income tax rate applicable in Poland, which in 2020 was 19% (2019: 19%)	(17,434)	(16,990)
Tax effects from the following items:		
Foreign income tax for the previous years	–	(1,033)
– Non-taxable income	6,577	8,351
– Expenses not deductible for tax purposes	(1,942)	(5,224)
– Recognition of the settlement of temporary differences related to limited partnerships	2,528	6,621
– Deferred tax assets recognized for temporary losses and differences due to which no assets were recognized in the previous periods	–	12,431
- Loss of the right to account for temporary differences from limited partnerships	(25,634)	–
- Recognition by equity of the provisions for the deferred tax on the equity component of issued bonds	5,414	–
– Other	127	88
Income tax expense	**(30,364)**	**4,244**

As a result of changes in corporate income tax, as of January 1, 2021, limited partnerships in which the Company is a partner will become independent taxpayers of income tax. Accordingly, as of January 1, 2021, these companies will account for any differences between the tax and accounting values of assets and liabilities held. Polimex Mostostal will not account for the tax result of limited partnerships in which it is a partner. This change is presented in the table above under the heading: "Loss of right to account for temporary differences from limited partnerships" in the amount of PLN 25,634 thousand.

8.2. Deferred income tax

The table below presents the assets and provision for deferred income tax before offsetting.

	As at 31 December 2020	As at 31 December 2019
Deferred income tax assets:		
– to be implemented after 12 months	10,167	60,160
– to be implemented within 12 months	110,708	94,529
	120,875	**154,689**
Deferred income tax liabilities		
– to be implemented after 12 months	2,268	3,438
– to be implemented within 12 months	15,383	10,845
	17,651	**14,283**

(in thousands of PLN)

8.3. Assets and provisions due to deferred income tax

Deferred tax assets	Employee benefit liabilities	Other employee benefits	Write-offs on inventory	Write-offs on receivables	Valuation of long-term contracts	Provisions and accruals	Overdue liabilities	Tax losses	Accrued interest	Deferred tax related to temporary differences in a limited partnership	Debt financing limit	Other	Total
Status as at 01 January 2019	**124**	**576**	**579**	**15,673**	**4,505**	**30,415**	**204**	**58,680**	**10,408**	**15,555**	**–**	**3,015**	**139,734**
Recognition / (charge) of the financial result	40	262	(13)	(6,571)	8,293	(16,143)	(88)	15,843	(997)	5,517	7,624	1,170	14,937
Recognition / (charge) of other comprehensive income	18	–	–	–	–	–	–	–	–	–	–	–	18
As at 31 December 2019	**182**	**838**	**566**	**9,102**	**12,798**	**14,272**	**116**	**74,523**	**9,411**	**21,072**	**7,624**	**4,185**	**154,689**
Recognition / (charge) of the financial result	54	141	(31)	418	37,282	5,500	(116)	(35,278)	(8,989)	(21,072)	(7,624)	(4,100)	(33,815)
Recognition / (charge) of other comprehensive income	1	–	–	–	–	–	–	–	–	–	–	–	1
As at 31 December 2020	**237**	**979**	**535**	**9,520**	**50,080**	**19,772**	**–**	**39,245**	**422**	**–**	**–**	**85**	**120,875**
Presentation of net assets and liabilities due to deferred tax													(17,651)
Deferred tax assets in the balance sheet													**103,224**

Deferred tax liabilities	Temporary differences regarding tangible fixed assets	Valuation of long-term contracts	Currency valuation	Equity component of bonds	Other	Total
Status as at 01 January 2019	**3,532**	**2**	–	–	**1,071**	**4,605**
Charge / (recognition) of the financial result	(41)	7,335	–	–	2,365	9,659
Charging/ (recognition) of other comprehensive income	19	–	–	–	–	19
As at 31 December 2019	**3,510**	**7,337**	–	–	**3,436**	**14,283**
Charge / (recognition) of the financial result	(1,077)	5,739	–	(5,050)	(3,082)	(3,470)
Charging/ (recognition) of other comprehensive income	–	–	–	–	–	–
Charging/ (recognition) of equity items	–	–	–	6,838	–	6,838
As at 31 December 2020	**2,433**	**13,076**	–	**1,788**	**354**	**17,651**
Presentation of net assets and liabilities due to deferred tax						(17,651)
Deferred tax liabilities in the balance sheet						–

(in thousands of PLN)

As at 31 December 2020 the Company had unsettled tax losses in the amount of PLN 206,550 thousand. The value of deferred tax assets due to unsettled tax losses amounted to PLN 39,245 thousand. As at 31 December 2020 there are no unrecognised assets due to tax loss. The Company carried out an analysis of the recoverability of assets due to tax loss based on the anticipated tax results and additional one-off events fostering the recovery of tax losses incurred in the previous reporting periods. The analysis was prepared using the best estimates and under the most probable scenario. A change in individual assumptions and elimination of one-off events fostering the recovery of tax losses from the analysis could lead to other conclusions regarding the amount of recoverable losses. The performed analysis is particularly sensitive to changes in the amount of expected tax revenues and costs obtained from operating activities. The main limitation in the possibility of settling tax losses is the 5-year period indicated in the regulations when tax losses can be settled. In accordance with the conducted analysis, the Company will use tax loss assets in the following periods: 2021 (in the amount of PLN 167,232 thousand), 2022 (in the amount of PLN 36,315 thousand), 2024 (in the amount of PLN 3,003 thousand). The one-off events supporting the recoverability of tax losses relate in particular to the achievement of additional tax income from the disposal of real estate held for sale (expected tax income of PLN 47,045 thousand in 2021). The Management Board of the Company estimates that the occurrence of the above one-off events is highly probable.

9. Dividends paid and proposed for payment

In 2019 - 2020 the Company did not declare or pay dividends. The Company does not anticipate the payment of dividends in 2021 for the financial year ended on 31 December 2020.

10. Profit per share

Basic profit per share is calculated by dividing the net profit attributable to ordinary equity holders of the Company for a given period by the weighted average number of ordinary shares issued during the reporting period.

The Company has financial liabilities arising from convertible bonds. These bonds have an anti-dilutive effect when calculating earnings per share. Therefore, they are not included in the calculation of diluted profit. Basic earnings per share coincide with diluted earnings per share.

The data on profit and shares which were used to calculate the profit per share is presented below:

	Year closed on 31 December 2020	**Year closed on 31 December 2019**
Net profit / (loss)	**61,394**	**93,663**
Basic and diluted profit / loss per share (in PLN):		
Number of shares registered as at the balance sheet date	236,618,802	236,618,802
Weighted average number of ordinary shares used to calculate ordinary profit/(loss) per share	236,618,802	236,618,802
Profit / loss per share	0.259	0.396

(in thousands of PLN)

11. Tangible fixed assets

11.1. Tables of tangible fixed assets flows

The table below presents the net value of tangible fixed assets as at 31 December 2020.

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Own tangible fixed assets	10,366	3,669	51	391	2,415	16,892
Right-of-use assets	14,600	175	4,280	932	–	19,987
Total tangible fixed assets	**24,966**	**3,844**	**4,331**	**1,323**	**2,415**	**36,879**

The table below presents the net value of tangible fixed assets as at 31 December 2020.

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Net value as at 01 January 2020	**10,610**	**3,681**	**115**	**276**	**–**	**14,682**
Purchase of tangible fixed assets	765	1,207	–	356	2,415	**4,743**
Sale and liquidation of tangible fixed assets	–	(13)	–	–	–	**(13)**
Reclassification to / from assets held for sale	(17)	161	6	(66)	–	**84**
Depreciation charge for the financial period	(992)	(1,367)	(70)	(175)	–	**(2,604)**
Net value as at 31 December 2020	**10,366**	**3,669**	**51**	**391**	**2,415**	**16,892**
As at 01 January 2020						
Gross value	11,724	40,600	2,609	13,763	1,390	**70,086**
Depreciation and impairment write-off	(1,114)	(36,919)	(2,494)	(13,487)	(1,390)	**(55,404)**
Net value as at 01 January 2020	**10,610**	**3,681**	**115**	**276**	**–**	**14,682**
As at 31 December 2020						
Gross value	12,457	37,116	2,248	11,340	3,805	**66,966**
Depreciation and impairment write-off	(2,091)	(33,447)	(2,197)	(10,949)	(1,390)	**(50,074)**

(in thousands of PLN)

Net value as at 31 December 2020	**10,366**	**3,669**	**51**	**391**	**2,415**	**16,892**

The table below presents the right-of-use assets recognized in accordance with the concluded lease agreements, as at December 31, 2020.

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Total
Net value as at 01 January 2020	1,694	226	3,729	–	5,649
Conclusion of new lease agreements	14,941	136	3,308	984	**19,369**
Termination of lease agreements	–	(9)	(56)	–	**(65)**
Depreciation charge for the financial period	(2,035)	(178)	(2,701)	(52)	**(4,966)**
Net value as at 31 December 2020	**14,600**	**175**	**4,280**	**932**	**19,987**
As at 01 January 2020					
Gross value	3,465	406	7,064	–	**10,935**
Depreciation and impairment write-off	(1,771)	(180)	(3,335)	–	**(5,286)**
Net value as at 01 January 2020	**1,694**	**226**	**3,729**	**–**	**5,649**
As at 31 December 2020					
Gross value	18,406	472	8,441	984	**28,303**
Depreciation and impairment write-off	(3,806)	(297)	(4,161)	(52)	**(8,316)**
Net value as at 31 December 2020	**14,600**	**175**	**4,280**	**932**	**19,987**

(in thousands of PLN)

The table below presents the net value of tangible fixed assets as at 31 December 2019.

Net value	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Own tangible fixed assets	10,610	3,682	115	276	–	**14,683**
Right-of-use assets	1,694	226	3,729	–	–	**5,649**
Total tangible fixed assets	**12,304**	**3,908**	**3,844**	**276**	**–**	**20,332**

The table below presents own tangible fixed assets.

	Lands, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Net value as at 1 January 2019	**22,451**	**3,585**	**190**	**530**	**664**	**27,420**
Purchase of tangible fixed assets	–	911	–	10	–	**921**
Disclosures	70	398	–	–	–	**468**
Sale and liquidation of tangible fixed assets	–	(57)	–	(17)	–	**(74)**
Reclassification to / from assets held for sale	(12,475)	(285)	–	1	(664)	**(13,423)**
Depreciation charge for the financial period	(922)	(871)	(75)	(248)	–	**(2,116)**
Revaluation	1,486	–	–	–	–	**1,486**
Net value as at 31 December 2019	**10,610**	**3,681**	**115**	**276**	**–**	**14,682**
As at 01 January 2019						
Gross value	35,212	43,405	4,534	15,510	2,054	**100,715**
Depreciation and impairment write-off	(12,761)	(39,820)	(4,344)	(14,980)	(1,390)	**(73,295)**
Net value as at 1 January 2019	**22,451**	**3,585**	**190**	**530**	**664**	**27,420**
As at 31 December 2019						
Gross value	11,724	40,601	2,609	13,763	1,390	**70,087**
Depreciation and impairment write-off	(1,114)	(36,919)	(2,494)	(13,487)	(1,390)	**(55,404)**

(in thousands of PLN)

Net value as at 31 December 2019	**10,610**	**3,682**	**115**	**276**	**–**	**14,683**

The table below presents the right-of-use assets recognized in accordance with the concluded lease agreements.

	Lands, buildings and structures	Machines and equipment	Means of transportation	Total
Net value as at 1 January 2019	–	–	–	**–**
Recognized assets in accordance with IFRS 16 as at 1 January	3,720	267	7,004	**10,991**
Conclusion of new lease agreements	–	151	164	**315**
Termination of lease agreements	(254)	(9)	(40)	**(303)**
Depreciation charge for the financial period	(1,772)	(183)	(3,399)	**(5,354)**
Net value as at 31 December 2019	**1,694**	**226**	**3,729**	**5,649**
As at 31 December 2019				
Gross value	3,465	406	7,064	**10,935**
Depreciation and impairment write-off	(1,771)	(180)	(3,335)	**(5,286)**
Net value as at 31 December 2019	**1,694**	**226**	**3,729**	**5,649**

(in thousands of PLN)

11.2. Fair values of land, buildings and structures

Tangible fixed assets are shown at the purchase price/production cost less depreciation and impairment losses, except for the asset class defined as real estate and structures permanently connected with land, i.e. real estate developed with a complex of warehouse, industrial and office buildings ("Lands and buildings"). The above asset class has been measured at fair value starting from October 2013.

The last valuation of tangible fixed assets was performed as at 31 December 2019.

The valuations were prepared by independent property appraisers. The methods applied were an income approach an investment method and a simple capitalization technique. The techniques used for the valuation were based on unobservable input data. In the case of land the valuation technique has changed moving from a comparative approach to an income approach. The property appraiser confirmed that after taking into account the purpose and scope of the valuation, the purpose of the property, its legal status and its development status, as well as the market information about similar properties, the proper procedure for determining the market value of the property will be an income approach, an investment method and a simple capitalization technique.

The fair value measurement has been categorized in the fair value hierarchy at level 3. Material information regarding the valuation techniques and parameters used and material unobservable inputs is presented in the Financial Statements for the year ended December 31, 2019 in Note 11.2

11.3. Investment property

	Year ended on 31 December 2020	Year ended on 31 December 2019
Value as at 1 January	**37,994**	**37,825**
Increase in ownership:		
- reclassification from tangible fixed assets	–	169
- capital expenditures incurred	950	–
Value as at 31 December	**38,944**	**37,994**

The rental income generated by investment property amounted to PLN 5,495 thousand in 2020 and PLN 5,861 thousand in 2019. Direct operating costs related to investment property that generated the rent income amounted to PLN 2,849 thousand in 2020 and PLN 2,766 thousand in 2019.

Investment property is recognized at fair value. The estimation of fair value was conducted as at 31 December 2020.

The valuations were prepared by independent property appraisers. The methods applied were an income approach an investment method and a simple capitalization technique. The techniques used for the valuation were based on unobservable input data. In the case of land the valuation technique has changed moving from a comparative approach to an income approach. The property appraiser confirmed that after taking into account the purpose and scope of the valuation, the purpose of the property, its legal status and its development status, as well as the market information about similar properties, the proper procedure for determining the market value of the property will be an income approach, an investment method and a simple capitalization technique.

The table below presents investment property that were measured at fair value as at 31 December 2020. The individual levels are defined as follows:

- Quoted prices (unadjusted) from active the markets for identical assets or liabilities (level 1).
- Input data other than quotations within the level 1 scope observable for the asset or liability, directly (i.e. in the form of prices) or indirectly (i.e. based on price-based calculations) (level 2).
- Input data for the valuation of an asset or liability that is not based on observable market data (i.e. unobservable data) (level 3).

The fair value measurements for investment properties have been fully classified at level 3 of the fair value hierarchy.

	Fair value as at 31 December 2020 Level 3	Fair value as at 31 December 2019 Level 3

Properties developed with a complex of warehouse, industrial and office buildings, including land	38,944	37,994
Total	**38,944**	**37,994**

The table below illustrates a summary of data relevant to the investment property valuations carried out:

Property Description:
Real estate developed with a complex of buildings of a warehouse, industrial and office character, including land constituting a part of real estate developed with a complex of buildings of a production, office and warehouse character with a fair value as at 31 December 2020 amounting to PLN 38,944 thousand.

a) **Comparative approach, average price correction method**

Unobservable data	**Unobservable data range (probability weighted average)**	**Relations between unobservable data and fair value**
Average price per square meter of comparable land, depending on the purpose	- average price per square meter of comparable property PLN 42,270. (the Jasło county), correction factor W = 0.874 - average price per square meter of comparable property PLN 91.66. (the Płock county), correction factor W=0,714, K=0,94 - average price per square meter of comparable property PLN 91.66. (the Płock county), correction factor W = 0.921 - average price per square meter of comparable property PLN 42.70. (the Krosno county), correction factor W=0,966, K=0,92	An increase in the average price per square meter increases the value of real estate (and vice versa)

b) **Income approach, investment method, simple capitalization technique**

Unobservable data	**Unobservable data range (probability weighted average)**	**Relations between unobservable data and fair value**
Capitalization rate	The capitalization rate was applied taking into account the income capitalization, type of property and prevailing market conditions: 8.25%-10.00%	An increase in the capitalization rate would cause a decrease in the fair value of the property (and vice versa).
The rate of rent	The market-price monthly rent was used taking into account the purpose of the property (administrative and office purposes, warehouse), differences in location, as well as individual factors such as the size of the property, comparison to other properties - at an average value: - PLN 12-16 per square meter for production, office and warehouse facilities (the Jasło county) - PLN 15-23 per square meter per month for office buildings and warehouse and production facilities (the Płock county) - PLN 8.50-20.50 per square meter per month for office buildings and warehouse and production facilities (the Krosno county)	A significant increase in market-price rent would cause a significant increase in fair value (and vice versa).

(in thousands of PLN)

12. Financial assets

12.1. Long-term financial assets

	Status as at 31 December 2020	Status as at 31 December 2019
Shares in subsidiaries	475,270	473,067
Shares in associated entities	2,263	2,394
Bank guarantee deposits	–	2,000
Borrowings	9,300	18,076
Total	**486,833**	**495,537**

Change in long-term financial assets - bonds and shares

	Status as at 31 December 2020	Status as at 31 December 2019
Status as at 1 January	**475,461**	**387,327**
Increases	**2,203**	**88,134**
Purchase of shares	265	51,297
Revaluation - reversal of write-offs	1,938	36,837
Decreases	**(131)**	**–**
Sale of shares	(131)	–
Status as at 31 December	**477,533**	**475,461**

The value of shares held in subsidiaries increased compared to 31 December 2019 by PLN 2,072 thousand. The increase in value results mainly from reversal of revaluation write-offs on Polimex Ukraine shares in the amount of PLN 1,938 thousand. The reversal of write-offs was carried out in connection with the receipt of an offer to purchase all of the shares held by the Company. The value of shares in Polimex Ukraine after the reversal of write-offs corresponds to the value of the offer received by the Company.

The shares in related entities are presented in note 12.3.

12.2. Short-term financial assets

	Status as at 31 December 2020	Status as at 31 December 2019
Bank guarantee deposits related to contracts	2,026	26
Borrowings	30,632	30,616
Total	**32,658**	**30,642**

Short-term borrowings include a loan granted to the subsidiary Mostostal Siedlce Sp. z o.o. Sp.k. in the amount of PLN 30,000 thousand. The loan matures on December 31, 2021. The interest rate is based on WIBOR 1Y plus a margin of 1.25%.

(in thousands of PLN)

12.3. Shares in related entities as at 31 December 2020

Item	Entity	Registered office	Scope of business activity	Value of shares according to the purchase price	Revaluation write-offs	Carrying amount of shares	Percen-tage share
	Subsidiaries						
1	Mostostal Siedlce Sp. z o.o. Sp.k.	Siedlce	Production of metal and other structures	208,039	–	208,039	99%
2	Polimex Energetyka Sp. z o.o.	Warsaw	Construction works	223,257	(85,309)	137,948	100%
3	Naftoremont-Naftobudowa Sp. z o.o.	Płock	Construction works	53,518	–	53,518	100%
4	Polimex Operator Sp. z o.o. Sp.k.	Warsaw	Rental and leasing of construction machinery and equipment,	16,983	–	16,983	98.99%
5	Czerwonogradzki Zakład Konstrukcji Stalowych	Chervonograd, Ukraine	Production of metal structures	9,035	–	9,035	100%
6	Polimex Opole Sp. z o.o. Sp.k.	Warsaw	Construction works	8,052	–	8,052	99.80%
7	Polimex-Mostostal Ukraina	Zhytomyr, Ukraine	Production of metal structures	17,422	(10,228)	7,194	100%
8	BR Development Sp. z o.o. in liquidation	Kraków [Cracow]	Does not conduct any business activity	6,198	–	6,198	100%
9	Polimex Budownictwo Sp. z o.o. Sp.k.	Siedlce	Construction works	5,475	–	5,475	98.99%
10	Stalfa Sp. z o.o.	Sokołów Podlaski	Manufacturing of metal products	5,294	–	5,294	100%
11	Polimex Infrastruktura Sp. z o.o.	Warsaw	Construction works on the roads and highways	5,269	–	5,269	100%
12	Polimex-Development Inwestycje Apartamenty Tatarska Sp. z o.o. in liquidation	Kraków [Cracow]	Does not conduct any business activity	4,970	–	4,970	100%
13	Energomontaż-Północ Bełchatów Sp. z o.o.	Rogowiec	Specialized construction and assembly services	4,198	–	4,198	54.95%
14	Polimex Centrum Usług Wspólnych Sp. z o.o. in liquidation	Warsaw	Does not conduct any business activity	4,180	(3,162)	1,018	100%
15	Polimex Mostostal ZUT Sp. z o.o.	Siedlce	Technical services	1,006	–	1,006	100%
16	Polimex Mostostal GmbH	Dortmund, Germany	Construction works	441	–	441	100%
17	Polimex Budownictwo Sp. z o.o.	Siedlce	Does not conduct any business activity	11,242	(11,090)	152	100%
18	Other			45,636	(45,156)	480	

	Associates						
1	Finow Polska Sp. z o.o.	Ostrowiec Świętokrzyski	Specialized construction and assembly services	2,263	–	2,263	26.4%
			Total	**632,478**	**(154,945)**	**477,533**	

(in thousands of PLN)

13. Trade and other receivables

	Note	As at 31 December 2020	As at 31 December 2019
Trade receivables		**309,286**	**52,115**
- from related entities	27	28,361	11,154
- from other entities		280,925	40,961
Other receivables		**110,812**	**71,680**
Budgetary receivables:		–	8,799
- due to VAT		–	8,791
- other		–	8
Other receivables from third parties		1,163	2,023
Other receivables from related entities		109,649	60,858
Total receivables (net)		**420,098**	**123,795**
Write-offs on trade receivables and other receivables	14	62,231	62,452
Total receivables (gross)		**482,329**	**186,247**

The significant increase in trade receivables balances is due to invoicing on ongoing strategic contracts: Puławy and Dolna Odra. For a description of the status of execution of these contracts, see Note 7.3.

Trade receivables do not bear interest and they usually have a payment period of 30 to 180 days.

Settlements and turnover with related entities are presented in note 27.2. There is a credit risk associated with trade receivables - more information on this matter is presented in note 30.3. Impairment on trade receivables in the year ended on 31 December 2020 is presented in note 14.

14. Financial instruments – impairment

Classification of financial assets measured at amortized cost to individual levels of the impairment model:

Financial instruments	As at 31 December 2020 Level 1 12-month ECL	Level 2 Lifetime ECL – without impairment	Level 3 Lifetime ECL – with impairment
Gross carrying amount	**211,435**	**487,865**	**111,400**
Trade receivables	–	309,713	57,726
Other receivables	–	111,047	4,078
Deposits due to the construction contracts	–	26,786	3,962
Borrowings (granted)	–	40,319	45,634
Bank guarantee deposits	2,026	–	–
Cash and cash equivalents	209,409	–	–
Revaluation write-offs	–	**(829)**	**(111,400)**
Trade receivables	–	(427)	(57,726)
Other receivables	–	–	(4,078)
Deposits due to the construction contracts	–	(15)	(3,962)
Borrowings (granted)	–	(387)	(45,634)
Carrying amount	**211,435**	**487,036**	–
Trade receivables	–	309,286	–
Other receivables	–	111,047	–
Deposits due to the construction contracts	–	26,771	–
Borrowings (granted)	–	39,932	–
Bank guarantee deposits	2,026	–	–
Cash and cash equivalents	209,409	–	–

** This item covers other long-term and short-term receivables.*

Financial instruments	As at 31 December 2019

	12-month ECL	Lifetime ECL – without impairment	Lifetime ECL – with impairment
Gross carrying amount	**135,423**	**259,371**	**126,584**
Trade receivables	-	37,641	72,706
Other receivables*	-	61,746	5,364
Deposits due to the construction contracts	-	110,751	3,887
Borrowings (granted)	-	49,233	44,627
Bank guarantee deposits	2,026	-	-
Cash and cash equivalents	133,397	-	-
Revaluation write-offs	**-**	**(735)**	**(110,843)**
Trade receivables	-	(123)	(58,109)
Other receivables	-	-	(4,220)
Deposits due to the construction contracts	-	(71)	(3,887)
Borrowings (granted)	-	(541)	(44,627)
Carrying amount	**135,423**	**258,636**	**15,741**
Trade receivables	-	37,518	14,597
Other receivables	-	61,746	1,144
Deposits due to the construction contracts	-	110,680	-
Borrowings (granted)	-	48,692	-
Bank guarantee deposits	2,026	-	-
Cash and cash equivalents	133,397	-	-

** This item covers other long-term and short-term receivables.*

The below table presents the indicators used to estimate the expected credit losses as at 31 December, 2020.

Trade receivables and deposits	**Current and 30 days after the payment date**	**Overdue from 31 to 90 days**	**Overdue from 91 to 180 days**	**Overdue over 180 days**
Ratio	0.05%	0.37%	2.19%	10.47%
Value of the write-offs on expected credit losses as at 31 December 2020	164	5	40	233

Borrowings	**Current and 30 days after the payment date**	**Overdue from 31 to 90 days**	**Overdue from 91 to 180 days**	**Overdue over 180 days**
Ratio	0.96%	-	-	-
Value of the write-offs on expected credit losses as at 31 December 2020	387	-	-	-

The basis for calculating the expected loan loss ratios are historical balance sheet data on the balances of financial assets (including long-term receivables, deposits, trade and other receivables) and the values created in the corresponding write-off periods. The ratios were estimated as the quotient of the sum of the value of created revaluation write-offs in relation to the sum of balances of financial assets broken down by the time structure.

Reconciliation of write-offs on trade receivables is presented in the table below.

	As at	**As at**

(in thousands of PLN)

	31 December 2020	31 December 2019
Opening balance of revaluation write-offs	**58,232**	**82,826**
Establishment of write-off on receivables	75	817
Use	(135)	(6,426)
Releasing due to settlement of receivables	(249)	(18,389)
Reclassification to deposits and assets held for sale	(74)	–
Change due to recognition of a write-off on expected credit losses (+) increases / (-) decreases	304	(596)
Write-offs at the end of the period	**58,153**	**58,232**

Reconciliation of write-offs on deposits is presented in the table below.

	As at 31 December 2020	As at 31 December 2019
Opening balance of revaluation write-offs	**3,958**	**13,664**
Write-offs - increases	–	50
Reclassification	74	–
Dissolution	–	(2,185)
Use	–	(7,521)
Conversion due to recognition of a write-off on expected credit losses (IFRS 9) (+) increases / (-) decreases	(55)	(50)
Write-offs at the end of the period	**3,977**	**3,958**

15. Long-term construction contracts

The value of recognized receivables and liabilities due to the valuation of long-term contracts for the provision of construction services in the Company was as follows:

Contracts during the reporting period	**Construction contracts assets**	**Construction contracts liabilities**
Status as at 01/01/2020	**11,553**	**4,715**
Changes in valuation of contracts	69,372	161,830
Revenues recognized in 2020 included in the balance of liabilities as at 01/01/2020	–	(668)
Change in the period during which the right to remuneration becomes unconditional	(38,572)	–
Change in advances received	7,196	45,229
Status as at 31/12/2020	**49,549**	**211,106**

The significant increase in the balance of liabilities on account of contract valuation results from the progress in execution and high invoicing as well as from received advance payments on strategic contracts: Puławy and Dolna Odra. For a description of the status of execution of these contracts, see Note 7.3.

The revenues recognized in 2020 included in the balance of liabilities at the beginning of the period amounted to PLN 668 thousand.

The revenues recognized in 2020 regarding performance obligations fulfilled in the previous periods amounted to PLN 0 thousand.

(in thousands of PLN)

Contracts during the reporting period	Construction contracts assets	Construction contracts liabilities
Status as at 01/01/2019	**10**	**83,019**
Changes in valuation of contracts	38,013	74
Revenues recognized in 2018 included in the balance of liabilities as at 01/01/2018	–	(10,891)
Change in the period during which the right to remuneration becomes unconditional	–	–
Change in advances received	(26,470)	(67,487)
Status as at 31/12/2019	**11,553**	**4,715**

The transaction price allocated to the performances of services that are pending at the end of the reporting period, to be executed:

	As at 31 December 2020	As at 31 December 2019
a) up to 1 year	1,113,682	428,880
b) over 1 year	1,408,629	885,529
Total	**2,522,311**	**1 314 409**

16. Cash and cash equivalents

	As at 31 December 2020	As at 31 December 2019
Cash at bank and in hand	200,092	32,157
Short-term deposits	9,317	101,240
Total	**209,409**	**133,397**
Restricted cash	*110,557*	–

The above balance of cash includes cash on the VAT accounts under split payment.

Restricted cash relates to funds held in project accounts for the Dolna Odra and Puławy contracts. These accounts are used to receive payments from the Ordering Parties for services rendered and to make payments to subcontractors for work performed. Payments from the project accounts in question to subcontractors are made using the procedure of expenditure approval by an independent technical advisor appointed for the contract in question.

Bank cash bears interest at variable interest rates, the amount of which depends in particular on the dates when the deposits were made and the relevant market interest rates. Short-term deposits are made for various periods, normally varying from one day to one month depending on the Company's current demand for cash, and they bear interest according to the interest rates determined for them.

(in thousands of PLN)

17. Change in the balance sheet items in the cash flow statement

	Year ended on 31 December 2020	Year ended on 31 December 2019
Change in receivables in the balance sheet	(250,616)	192,401
Adjustment for receivables from dividends	(13,365)	(76,566)
Adjustment for receivables from sales of non-financial fixed assets	(23)	(423)
Adjustment for compensations related to loans received and granted	417	561
Adjustment for compensation of security deposit with loan liabilities	(72,363)	–
Change in receivables in the cash flow statement	**(335,950)**	**115,973**
Change in liabilities in the balance sheet	386,914	(137,786)
Adjustment for a change in liabilities due to the acquisition of tangible fixed assets	(2,595)	(864)
Adjustment for a loan interest compensation	–	(117)
Adjustment for foreign income tax	–	(1,033)
Other adjustments	(24)	–
Change in liabilities in the cash flow statement	**384,295**	**-139,800**

18. Assets held for sale

Pursuant to the provisions of the Intercreditor Agreement dated September 11, 2014, as amended, the Issuer is authorized to dispose of certain assets. The table presents the balance of assets held for sale as at 31 December 2020 and as at 31 December 2019:

	As at 31 December 2020	As at 31 December 2019
Tangible fixed assets	688	14,389
Investment property	25,997	27,796
Total assets held for sale	**26,685**	**42,185**

The valuation of investment property presented under assets held for sale corresponds to level 1 or 2 of the fair value hierarchy.

During 2020, the Company sold the property located at ul. Przemysłowa 11 in Stalowa Wola worth PLN 2,199 thousand. In the third quarter of 2020, in connection with the expected sale of the property located in Wilczkowice Górne (near Kozienice), the Group recognised the adjustment of the property value with the expected sales price. As a result, the value of the property was reduced by PLN 4,871 thousand, which was charged in full to the Group's current result. The sale of this property took place in the fourth quarter of 2020, for the price of PLN 8,450 thousand. Due to formal and legal conditions, the property located in Kraków at ul. Powstańców 66 (worth PLN 19,500 thousand) will be sold within a period exceeding 12 months.

19. Equity

19.1. Share capital

As at 31 December 2020 the company's share capital amounted to PLN 473,237,604 and was divided into 236,618,802 shares with a nominal value of PLN 2 each. The shares have been fully paid.

Share capital	As at 31 December 2020	As at 31 December 2019
Series A ordinary shares	86 618 802	86 618 802
Series T ordinary shares	150 000 000	150 000 000
Total	**236 618 802**	**236 618 802**

Each share has the right to one vote at the General Meeting of Shareholders. Shares of all series are equally privileged with regards to the dividends and return on capital. The structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes as at 31 December 2020 is as follows:

(in thousands of PLN)

Shareholder	Number of shares / votes	% in the share capital / in the total number of votes at the General Meeting of Shareholders
ENEA S.A. with the registered office in Poznań, ENERGA S.A. with the registered office in Gdańsk, PGE Polska Grupa Energetyczna S.A. with the registered office in Warsaw, PGNiG Technologie S.A. with the registered office in Krosno – as Investors acting jointly and in agreement *	156,000,097	65.93%
Bank Polska Kasa Opieki S.A.	13 629 376	5.76%
Others – below 5% of the share capital	66 989 329	28.31%
The overall number of shares issued	**236,618,802**	**100.00%**

* each Investor holds 16.48%

19.2. Reserve capital

Pursuant to Art. 396 § 1. of the Code of Commercial Companies and Partnerships to cover the loss, a reserve fund must be established, to which at least 8% of the profit for the financial year shall be assigned, as long as this capital does not reach at least one-third of the share capital. The reserve capital created in this way shall not be divided. As at 31 December 2020 the reserve capital amounted to PLN 157 746 thousand.

19.3. Other capitals

The other capitals of the Company relate to the effect of settlement of the merger with subsidiaries in the amount of PLN (444 924) thousand that took place in 2010. According to the Resolutions No 8 and 9 of the Ordinary General Meeting of the Company of 27 June 2017, the negative value of the remaining capital was covered with retained earnings in the amount of PLN 59,640 thousand and decreasing reserve capital in the amount of PLN 151,964 thousand. The change in the amount of other capital in 2018 resulted from Resolution No 6 of the Ordinary General Meeting of 21 June 2018 regarding the transfer of the Company's net profit in the amount of PLN 82 558 thousand to other capital, as well as Resolution No 7 of the Ordinary General Meeting of 21 June 2018 regarding the transfer of retained earnings in the amount of PLN 12 thousand to other capital. On 31 December 2018 the remaining capitals amounted to PLN (149 732) thousand. On 13 June 2019 there was the adoption of Resolution No 7 of the Ordinary General Meeting regarding the distribution of the Company's net profit and the allocation of PLN 17 528 thousand to other capital. On 31 December 2019 the other capital amounted to PLN (132 204) thousand. On 3 June 2020, resolutions no. 7 and 8 were adopted of the Ordinary General Meeting on the distribution of the Company's net profit and on the appropriation of retained earnings arising during 2019 (as a result of recognising the effects of revaluations of properties sold in 2019) with a total value of PLN 94,575 thousand to remaining capitals. On 31 December 2020 the remaining capitals amounted to PLN (37,629) thousand.

19.4. Reserve capital from surplus of bonds convertible into shares

The equity component of the issued convertible bonds as at 31 December 2019 amounted to PLN 31,552 thousand. As at 31 December 2020, the value of the equity component of the convertible bonds issued was PLN 6,071 thousand. The change in the amount of these capitals results from accounting for a significant change in the terms of the issue which took place on 28 December 2020. The transaction has been outlined in note 21.

19.5. Accumulated other comprehensive income

Accumulated other comprehensive income consists of capital from revaluation of tangible fixed assets and actuarial gains/(losses). The revaluation reserve as at 31 December 2020 is PLN 27,959 thousand, whereas as at 31 December 2019 it was PLN 35,100 thousand. The reduction in the value of this capital is due to the sale of properties (see note 18) that were revalued in prior periods. The actuarial profit as at 31 December 2020 amounted to PLN 866 thousand and as at 31 December 2019 it amounted to PLN 870 thousand.

(in thousands of PLN)

19.6. Retained earnings

In accordance with Resolutions No. 7 and 8 of the Ordinary General Meeting of the Company of 3 June 2020, the net profit for the financial year 2019 in the amount of PLN 93,663 thousand and retained earnings in the amount of PLN 912 thousand were allocated to reduce the negative value of other capitals. As at 31 December 2020 the retained earnings amounted to PLN 91,178 thousand.

20. Bank loans, borrowings and other sources of financing

	As at 31 December 2020	As at 31 December 2019*
Short-term including:	**16,984**	**88,722**
Bank loans	–	54,429
Borrowings	12,406	30,020
Lease liabilities	4,578	4,273
Long-term including	**34,596**	**30,429**
Bank loans	–	27,000
Borrowings	18,095	1,323
Lease liabilities	16,501	2,106
Total bank loans, borrowings and lease liabilities	**51,580**	**119,151**

** Data restated after the presentation change outlined in note 3.4*

The table below presents changes in the value of liabilities due to bank loans.

	As at 31 December 2020	As at 31 December 2019
The value of bank loan liabilities at the beginning of the period	**81,429**	**148,912**
Bank loans received	80,763	–
Accrued interest calculated at the effective interest rate	3,501	4,113
Interest payments	(30,555)	(29,631)
Capital payments	(135,138)	(41,965)
The value of bank loan liabilities at the end of the period	**–**	**81,429**

On 28 December 2020 Polimex Mostostal S.A. made an early repayment of all balance debt to the banks being parties to the Agreement regarding the terms of service of its financial debt concluded by the Company on 21 December 2012. The total repayment of debt resulting from bank loans and claims amounted to PLN 82,948 thousand including the principal of PLN 54,659 thousand and interest of PLN 28,289 thousand.

During 2020, the Company obtained a short-term loan from Bank of China. The value of the liability amounted to PLN 80,763 thousand. This loan was settled on 28 December 2020 by transferring the amount of the retained security deposit related to the Kozienice contract directly to Bank of China.

Comparison of interest rates in the following periods:

	Year ended on 31 December 2020	Year ended on 31 December 2019
Weighted average for the loans in PLN	Warsaw Interbank Offered Rate 3M + 1.40 p.p	Warsaw Interbank Offered Rate 3M + 1.25 p.p

(in thousands of PLN)

The table below presents the change in the value of loan liabilities.

	As at 31 December 2020	As at 31 December 2019
The value of loan liabilities at the beginning of the period	**31,343**	**30,992**
Accrued interest calculated at the effective interest rate	490	903
Interest payments	(356)	(552)
Capital payments	–	
Change in valuation due to change in expected cash flows	(976)	–
The value of loan liabilities at the end of the period	**30,501**	**31,343**

The table below presents changes in the value of lease liabilities.

	As at 31 December 2020	As at 31 December 2019
The value of lease liabilities at the beginning of the period	**6,379**	–
Lease liabilities	19,218	10,996
Recognition of lease liabilities at amortised cost	734	1,086
Repayment of liabilities	(5,774)	(5,703)
Changes to leases	522	–
The value of lease liabilities at the end of the period	**21,079**	**6,379**

21. Bonds

	As at 31 December 2020	As at 31 December 2019
Liabilities under the issue of series E and F bonds	6,997	12,839
Liabilities under the issue of series A and B bonds	106,145	146,808
Liabilities under the issue of series C bonds	13,706	13,931
Total	**126,848**	**173,578**

The table below presents a breakdown of bonds into long- and short-term portions:

	As at 31 December 2020	As at 31 December 2019
Long-term bonds	**113,364**	**86,857**
Liabilities under the issue of series E and F bonds	–	4,365
Liabilities under the issue of series A and B bonds	99,751	68,561
Liabilities under the issue of series C bonds	13,613	13,931
Short-term bonds	**13,484**	**86,721**
Liabilities under the issue of series E and F bonds	6,997	8,474
Liabilities under the issue of series A and B bonds	6,394	78,247
Liabilities under the issue of series C bonds	93	
Bonds in total	**126,848**	**173,578**

Series A, B bonds were issued on 1 October 2014 are bonds with the option of conversion into shares of the Company. The total value of proceeds from the issue was PLN 140,000 thousand. At the initial recognition of these bonds the capital component in the amount of PLN 29,747 thousand was recognized in the Company's equity, the liability was recognized at PLN 108,292 thousand and the commission on issue guarantees amounted to PLN 1,960 thousand.

(in thousands of PLN)

Bonds can be converted at any time until the day the bonds are redeemed at the unit price of PLN 2. In case this is not the case, the bonds will be redeemed on specific maturity days. The interest rate of the Warsaw Interbank Offered Rate 3M plus 3 percentage points per year is payable quarterly until the conversion or purchase of the bond.

On 27 September 2017 the C series bonds convertible into U series bearer shares were issued. The total value of issued bonds was PLN 14,500 thousand. The nominal value and the issue price of one bond is PLN 500,000. The interest rate is variable based on the Warsaw Interbank Offered Rate 3M plus a margin which may increase if the Company fails to make payments on the Bonds on time.

On December 28, 2020, with the holders of the issued series A, B and C bonds, it was agreed to modify the terms of issue of these bonds through the conclusion of agreements amending and unifying the relevant Terms of Bond Issue covering, in particular, the change of the Final Redemption Date to December 31, 2026 in the case of series A and B bonds and December 31, 2024 in the case of series C bonds and the implementation of a new schedule for the mandatory redemption of series A and B bonds, under which, on the date of the transaction, the Company made :

- redemption of 35 A-series convertible bonds with a nominal unit value of PLN 500 thousand, together with interest accrued thereon,
- redemption of 100 B-series ordinary bonds with a nominal unit value of PLN 100 thousand, together with interest accrued thereon, and
- payment of interest accrued through September 30, 2020 with respect to the remaining 2014 Bonds.

The value of the above redemption was PLN 46,807 thousand (including PLN 27,500 thousand of bond redemption and PLN 19,307 thousand of interest repayment).

Under the new mandatory redemption schedule for the Series A and B Bonds, the Company will make quarterly redemptions of successive blocks of bonds beginning on September 30, 2021 until the Final Redemption Date on December 31, 2026.

In addition, other changes were introduced to the Terms of Bonds Issue in order to modify the rules of interest payment and to introduce changes postulated by the Company concerning modification of the existing provisions, including, among others, introduction of conditions concerning the rules of dividend payment by the Company, where the first resolution in this regard will be possible to be adopted after July 31st 2024 and the dividend payment itself will not exceed 30% of the amount of profit generated in a given financial year.

As a result of a significant change in the terms of the Series A and B bond issue, liabilities arising from the issue under the previous terms were removed from the balance sheet and liabilities arising from the issue under the new terms and conditions were recognised. Due to the removal of liabilities from the previous issue from the balance sheet, the following were recognised: (i) costs of change in terms amounting to PLN 2,596 thousand. (ii) directly by equity the amount of PLN 1,678 thousand. The value of the remaining equity component of PLN 28,056 thousand was transferred to retained earnings. In connection with the recognition of liabilities following a material change in the terms of issue, an equity component of PLN 5,677 thousand was recognised. The value of liability due to the bond issue after the change of terms amounted to PLN 154,512 thousand.

During, 2020 on: July 24, October 23 and 30, December 8 and 14 there were changes in the terms of series A and B bonds issue which were not material. Changes made on subsequent dates moved the maturity date of the bonds. The total value of recognised effects of these changes amounted to PLN 2,793 thousand and was presented in financial income.

The table below shows the valuation of the series A, B, C, E and F bonds at amortized cost and the changes in the terms of issue that occurred in 2020:

	Year ended on 31 December 2020	**Year ended on 31 December 2019**

The value of the liability at the beginning of the period	**173,578**	**176,469**
Changes to terms of issue (1)		
Profit from change in cash flow	(2,793)	–
Material change in the terms of issue dated 28/12/2020 (2)		
Removal from the balance sheet of liabilities according to the changed terms	(155,556)	–
Recognition of liabilities according to the changed terms	154,512	–
Accrued interest calculated at the effective interest rate	15,517	16,602
Interest payments	(26,356)	(8,284)
Redemption of bonds	(32,054)	(11,209)
The value of the liability at the end of the period	**126,848**	**173,578**

22. Assets pledged as collateral

	As at 31 December 2020	**As at 31 December 2019**
Tangible fixed assets	16,892	14,683
Intangible assets	346	345
Investment property	38,944	37,994
Bonds and shares	469,411	467,343
Inventories	4,123	168
Assets held for sale	26,685	42,185
Total	**556,401**	**562,718**

The following items are presented under assets held for sale pledged as collateral as at 31 December 2020: tangible fixed assets in the amount of PLN 668 thousand and investment property in the amount of PLN 25,977 thousand (note 18).

23. Provisions

	Provisions for warranty repairs	**Provision for litigations**	**Provision for penalties**	**Provision for the costs of contracts settlement**	**Provision for losses**	**Provision for sureties**	**Total**
As at 01 January 2020	**18,568**	**15,454**	**773**	**6,652**	**26,590**	**83**	**68,120**
Created in the financial year	3,421	–	–	–	–	168	**3,589**
Used	(1,669)	(105)	(244)	(685)	(13,022)	–	**(15,725)**
Dissolved	(9,139)	(8,332)	–	(5,626)	(3,594)	(199)	**(26,890)**
As at 31 December 2020	**11,181**	**7,017**	**529**	**341**	**9,974**	**52**	**29,094**
Short-term as at 31 December 2020	3,899	2,281	529	341	9,974	52	**17,076**
Long-term as at 31 December 2020	7,282	4,736	–	–	–	–	**12,018**

	Provisions for warranty repairs	**Provision for litigations**	**Provision for penalties**	**Provision for the costs of contracts settlement**	**Provision for losses**	**Provision for sureties**	**Total**
As at 01 January 2019	**46,596**	**26,634**	**3,028**	**9,478**	**47,654**	**80**	**133,470**
Created in the financial year	2,111	–	–	–	–	300	**2,411**
Used	(4,208)	(890)	(976)	(1,928)	(19,298)	–	**(27,300)**
Dissolved	(25,931)	(10,290)	(1,279)	(898)	(1,766)	(297)	**(40,641)**

(in thousands of PLN)

As at 31 December 2019	**18,568**	**15,454**	**773**	**6,652**	**26,590**	**83**	**68,120**
Short-term as at 31 December 2019	7,933	9,103	773	6,652	26,590	83	**51,134**
Long-term as at 31 December 2019	10,635	6,351	–	–	–	–	**16,986**

24. Employee benefit liabilities

24.1. Employee benefit liabilities

	As at 31 December 2020	As at 31 December 2019
Payroll liabilities	2,439	2,126
Social security liabilities	1,259	1,802
Bonuses and rewards	4,331	1,894
Unused holidays	2,353	1,445
Retirement and disability benefits	362	191
Liabilities due to employee benefits - short-term	**10,744**	**7,458**
Retirement and disability benefits	875	766
Liabilities due to employee benefits - long-term	**875**	**766**

The Company pays retiring employees the amount of retirement and disability severance payments in the amount specified by the Collective Bargaining Agreement. Therefore, based on the valuation made by a professional actuarial company, the Company creates a provision for the current value of the liability for retirement and disability benefits and other post-employment benefits.

24.2. Main assumptions adopted by the actuary to measure liabilities due to long-term employee benefits

	31 December 2020	31 December 2019
Discount rate %	1.2%	2.0%
Expected inflation rate %	2.5%	2.5%
Expected wage growth rate %	3.5%	3.5%

The costs of benefits recognized in profit/ (loss) and actuarial gains and losses regarding retirement and disability benefits are presented in the table below:

	For year ended 31 December 2020	For year ended 31 December 2019
Cost of benefits:		
Current employment costs	146	78
Past service cost and benefit plan restrictions	196	248
Costs of interests	20	22
Other (benefits paid)	(87)	(139)
Components of defined benefit plan costs recognized in profit or loss	**275**	**209**
Revaluation of net liabilities due to defined benefits:		
Actuarial gains/ (losses) resulting from changes in demographic assumptions	(71)	17
Actuarial gains/ (losses) resulting from changes in financial assumptions	76	77
Components of benefit plan costs recognized in other comprehensive income	**5**	**94**
Total	**280**	**303**

(in thousands of PLN)

The reconciliation of the balance sheet change in provisions for retirement and disability benefits is presented in the table below:

	For year ended 31 December 2020	For year ended 31 December 2019
Liabilities due to defined benefits as at the beginning of the period	**957**	**653**
Current employment costs	146	78
Costs of interests	20	22
Profits/ (losses) due to revaluation:		
Actuarial gains / (losses) due to differences between assumptions and their implementation	(71)	17
Actuarial gains/ (losses) resulting from changes in economic assumptions	76	78
Past service cost and benefit plan restrictions	196	248
Effects of the settlement of the contribution in kind of an organised part of the enterprise and other transfers	–	–
Benefits paid	(87)	(139)
Liabilities due to defined benefits as at the end of the period	**1,237**	**957**

24.3. Sensitivity analysis

In accordance with IAS 19 the table below presents the sensitivity (-/+ 0.5 p.p) of liabilities to changes in the discount rate and the assumptions about the growth of salaries. The methods and assumptions used in conducting the sensitivity analysis have not changed compared to the previous reporting period. The liability recognized in the balance sheet for the retirement and disability benefits is PLN 1,237 thousand.

Discount rate 0.7 %

Liabilities due to:	retirement benefits	disability benefits	total
short-term	362	–	362
long-term	875	53	928
Total	**1,237**	**53**	**1,290**

Discount rate 1.7%

Liabilities due to:	retirement benefits	disability benefits	total
short-term	362	–	362
long-term	776	50	826
Total	**1,138**	**50**	**1,188**

Salary growth rate 3.0%

Liabilities due to:	retirement benefits	disability benefits	total
short-term	362	0	362
long-term	779	49	828
Total	**1,141**	**49**	**1,190**

Salary growth rate 4.0%

Liabilities due to:	retirement benefits	disability benefits	total
short-term	362,142	–	362,142
long-term	871,761	54,374	926,135
Total	**1,233,903**	**54,374**	**1,288,277**

25. Trade and other liabilities

Transactions with related entities are concluded on an arm's length basis (typical commercial transactions). Liabilities due to deliveries and services do not bear interest and are usually settled within 30 to 180 days. Other liabilities with an average payment period of 1 month do not bear interest. Interest payable is usually accounted for on the basis of accepted interest notes. Accruals cover mainly the value of construction contract costs incurred and not settled in the invoiced costs.

Trade and other liabilities are presented in the table below:

(in thousands of PLN)

	As at 31 December 2020	As at 31 December 2019*
Trade receivables	**184,236**	**73,743**
Liabilities towards associated entities	68,130	40,575
Liabilities towards other entities	116,106	33,168
Accrued expenses	**72,624**	**10,799**
Total trade liabilities	**256,860**	**84,542**
Tax, customs, social insurance and other liabilities		
Tax on goods and services	962	–
Personal income tax	756	669
PFRON (State Fund for Rehabilitation of Disabled People)	30	14
Other	82	29
Other liabilities with related parties	4	–
Tangible fixed assets purchase liabilities	2,800	749
Other	–	33
Total other liabilities	**4,634**	**1,494**

** Data restated after the presentation change outlined in note 3.4*

The significant increase in trade liabilities is due to progress on strategic contracts: Puławy and Dolna Odra. For a description of the status of execution of these contracts, see Note 7.3.

26. Contingent liabilities

	As at 31 December 2020	As at 31 December 2019
Contingent liabilities	**612,072**	**453,133**
- granted guarantees and warranties	509,681	339,344
– promissory notes	51,182	51,182
– litigations	51,209	62,607

The increase in the value of guarantees issued is mainly due to the issuance of new performance bonds for contracts: Puławy (in the amount of PLN 105,990 thousand) and Dolna Odra (in the amount of PLN 47,360 thousand).

27. Information on related-party transactions

27.1. Transactions with parties related with the State Treasury

The company is a party to transactions with entities related with the State Treasury. These transactions, which are also conducted with shareholders and parties related through shareholders, are presented in note 27.2 as transactions with other parties related through shareholders. Transactions conducted with other parties related with the State Treasury are transactions concluded under market terms.

27.2. Transactions with related parties

The transactions between related entities were conducted on terms equivalent to those that prevail in arm’s length transactions. The company does not apply collaterals to receivables from related parties. The transactions within the Capital Group are settled by means of payment of receivables or their compensation with liabilities.

The table below presents the total values of the transactions concluded with related parties for the period of a year ended on 31 December 2020 and as at that day and on 31 December 2019 and as at that day.

(in thousands of PLN)

	For the period of 12 months				Status as at the end of the 2020 reporting period					
	Sales income and other operating income	Financial income	Purchases of goods and services and other operating expenses	Financial costs	Trade receivables	Other receivables	Receivables from borrowings	Trade receivables	Other liabilities	Liabilities from borrowings
Subsidiaries	41,351	79,088	169,477	500	11,755	108,647	39,481	67,491	26	30,501
Associates	–	–	–	–	–	–	–	–	–	–
Other parties related through shareholders	128,458	2,552	4,288	4	16,606	1,002	–	639	–	–
Total	**169,809**	**81,640**	**173,765**	**504**	**28,361**	**109,649**	**39,481**	**68,130**	**26**	**30,501**

	For the period of 12 months of 2019				Status as at the end of the 2019 reporting period					
	Sales income and other operating income	Financial income	Purchases of goods and services and other operating expenses	Financial costs	Trade receivables	Other receivables	Receivables from borrowings	Trade receivables	Other liabilities	Liabilities from borrowings
Subsidiaries	39,571	12,536	432,779	17,077	11,131	60,879	48,240	40,440	129	31,343
Associates	–	2,394	35	–	–	–	–	–	–	–
Other parties related through shareholders	468,779	–	7,487	1	55,357	–	–	146	–	–
Total	**508,350**	**14,930**	**440,301**	**17,078**	**66,488**	**60,879**	**48,240**	**40,586**	**129**	**31,343**

(in thousands of PLN)

28. Remuneration of the Management Board and the Supervisory Board

28.1. Remuneration of the Management Board and the Supervisory Board

	Year closed on 31 December 2020	Year ended on 31 December 2019
Management Board		
Short-term employee benefits (salaries and charges)	2,990	2,193
Supervisory Board		
Short-term employee benefits (salaries and charges)	766	669
Total	**3,756**	**2,862**

28.2. Information about the number of shares of the Company held by the Management Board and the Supervisory Board

In the period from 31 December 2019 to the date of publication of this report, the acquisition of the Company's shares was carried out by Mr Konrad Milczarski, who was a member of the Supervisory Board until 31 May 2020. On 12 March 2020 Mr Milczarski purchased 30,000 shares for the total of PLN 36,419.60 and on 13 March 2020 he purchased 40,000 shares for the total of PLN 49,100.00. The members of the Management Board and the other members of the Supervisory Board have not informed the Company as at 31 December 2020 or as at the date of publication of this report that they hold or have sold its shares.

There have been no changes in the number of shares between 31 December 2020 and the date of the report going public.

29. Employment structure

Employment in the Company at 31 December 2020 and as at on the day 31 December 2019 was as follows:

	Year closed on 31 December 2020	Year ended on 31 December 2019
Management Board	2	3
Support division	182	189
Operations division	129	54
	313	**246**

30. Goals and principles of risk management

30.1. Interest rate risk

The Company's financial results may fluctuate due to changes in market factors, in particular, prices of materials, exchange rates and interest rates. By managing the risk to which it is exposed, the Company aims to reduce the volatility of future cash flows and minimise potential economic losses arising from the occurrence of events that may adversely affect profit or loss.

The company holds cash on the bank accounts, it has liabilities under bank loans and debt in the form of receivables under the issued bonds. The above liabilities are based on a variable interest rate. The company monitors the situation on the financial market and analyses trends and forecasts in terms of the development of the reference market rates. As at 31 December 2020 the Company did not conclude derivative transactions securing the above-mentioned risk.

Analysis of sensitivity to interest rate changes

	Value exposed to risk	0.50%	-0.50%
		Increase/decrease by	
		0.50 p.p.	**-0.50 p.p.**
For the year ended on 31 December 2020			
Cash on bank accounts	209,409	1,047	(1,047)
Borrowings granted	39,932	200	(200)
Bank guarantee deposits	2,026	10	(10)
Received bank loans and borrowings	(30,501)	(153)	153
Bonds	(126,848)	(634)	634
Impact on the gross financial result		**470**	**(470)**
Deferred tax		(89)	89
Total		**381**	**(381)**

	Value exposed to risk	Increase/decrease by 0.50 p.p.	-0.50 p.p.
For the year ended on 31 December 2019			
Cash on bank accounts	133,397	667	(667)
Borrowings granted	82,787	414	(414)
Bank guarantee deposits	2,026	10	(10)
Received bank loans and borrowings	(71,505)	(358)	358
Bonds	(165,710)	(829)	829
Impact on the gross financial result		**(96)**	**96**
Deferred tax		18	(18)
Total		**(78)**	**78**

30.2. Foreign exchange risk

The basic method of hedging against the exchange rate risk used by the Company remains the natural hedging, that is hedging the currency risk by entering into transactions generating costs in the same currency as the currency of revenues. As at 31 December 2020 the Company did not have any active derivative instruments hedging the exchange rate risk.

Fluctuations in the average EUR exchange rate, due to the decreasing scale of foreign exchange turnover, have a small impact on the amount of revenue expressed in PLN from contracts concluded in foreign currency. On the basis of the acquired contracts the Company estimated the exposure to the currency risk in the period January - December 2021 as follows:

Specification	**2020**
Forecast inflows in foreign currency - equivalent in thousands of EUR	-
Forecast expenses in foreign currency - equivalent in thousands of EUR	(27,150)
Business exposure to foreign exchange risk in thousands of EUR	**(27,150)**

Exposure to foreign exchange risk

	As at 31 December 2020 EUR	**As at 31 December 2019 EUR**
Cash and cash equivalents	6	13
Trade receivables	2,665	10
Trade liabilities	(2,088)	(219)
Gross carrying amount	**583**	**(196)**
Estimated forecast of sales	–	–
Estimated forecast of purchase	(27,150)	(300)
Gross exposure	(27,150)	(300)
Net exposure	**(26,567)**	**(496)**

Foreign exchange risk sensitivity analysis as at 31 December 2020

(in thousands of PLN)

	Carrying amount	EUR/PLN	
		Exchange rate (change 10 %)	Exchange rate (change -10 %)
Cash and cash equivalents	27	3	(3)
Trade and other receivables	12,299	1,230	(1,230)
Trade and other liabilities	(9,637)	(964)	964
Impact on the gross financial result	**2,689**	**269**	**(269)**
Deferred tax		(51)	51
Total		**218**	**(218)**

Foreign exchange risk sensitivity analysis as at 31 December 2019

	Carrying amount	EUR/PLN	
		Exchange rate (change 10 %)	Exchange rate (change -10 %)
Cash and cash equivalents	55	6	(6)
Trade and other receivables	43	4	(4)
Trade and other liabilities	(933)	(93)	93
Impact on the gross financial result	**(835)**	**(83)**	**83**
Deferred tax		16	(16)
Total		**(67)**	**67**

30.3. Credit risk

Credit risk is minimised by cooperation with reliable commercial partners, the application of instruments available on the market that enable the insurance of trade receivables from foreign recipients and the acquisition of collateral for payments from the contractors. In relation to domestic recipients that do not meet internal credit and financial reliability criteria, collateral in the form of sureties, agreement on the transfer of ownership, registered pledge or bill of exchange is applied when the recipients have restrictions on the availability of bank or insurance guarantees.

The Company has a concentration of the credit risk in connection with significant receivables from the power sector companies. Considering the fact that the main recipients are domestic energy companies who are controlled by the State Treasury and perform a critical function in the national energy system, the Company estimates that it is not significantly exposed to credit risk against those recipients.

The Company has significant receivables due to the share in the profits of limited partnerships which are subsidiaries. The credit risk of these receivables is low due to the good financial results of these entities, additionally limited by a large share in the sales to the companies controlled by the State Treasury.

Credit risk management of financial transaction partners consists in controlling the financial credibility of current and potential partners of these transactions and in monitoring credit exposure in relation to the limits granted. Transaction partners should have an appropriate rating assigned by leading rating agencies or have guarantees from institutions that meet the minimum rating requirement. The Company concludes financial transactions with reputable companies with good creditworthiness and uses diversification of institutions with which it cooperates. In the area of credit risk management of business transaction partners, the Company submits all clients who apply for granting credit limits to the procedures of verification of their financial credibility and, depending on its assessment, appropriate internal limits are granted. The Company sets guidelines regarding the credit risk management process of business partners in order to maintain appropriate standards in the area of credit analysis and operational safety of the process across the entire Company. The measure of credit risk is the amount of maximum exposure to risk for specific classes of financial assets. The book values of financial assets represent the maximum credit exposure, in particular, trade receivables and transferred deposits. In the opinion of the Management Board, the risk of financial assets at risk is reflected by making the revaluation write-offs. The calculation of the write-offs is presented in note 14.

The credit risk related to liquid funds is limited because the Company's counter parties are banks with a high credit rating assigned by international rating agencies.

30.4. Liquidity risk

In the opinion of the Company, this risk could be mitigated at a moderate level. The maintenance of financial liquidity in the medium and long-term perspective requires involvement in projects and contracts ensuring neutral and positive cash flows. These long-term and short-term liquidity risks are constantly monitored and analysed.

The current financial situation of the Issuer's Group is stable – the Group has significant cash resources and significant guarantee limits in both banking and insurance institutions. The structure, level and deadlines for the repayment of financial debts are adjusted to the current and anticipated ability to service them in a timely manner. The Group conducts a wide range of activities aimed at further improvement of operating conditions, including inter alia:

- further optimisation of operating activities to streamline processes related to the implementation, management and monitoring of construction and assembly projects and to reduce operating costs through the projected, the reduction of general administration expenses, centralisation of purchases, optimisation of organizational structures, optimisation of the contract portfolio and concentration of the Group's operations on the core business;
- continuation of the process of divesting assets, in particular property that belongs to the Group and other assets that are not indispensable to continue the Group's core business,
- acquiring new sources of debt financing and optimizing terms and maturity structure of the Group's existing on- and off-balance sheet financing.

As part of its activities, on 28 December 2020 the Issuer concluded with a group of financial creditors a package of annexes to existing agreements and new financial agreements including, in particular:

a) obtaining new guarantee financing under:
   i. a new guarantee line agreement with Powszechna Kasa Oszczędności Bank Polski S.A., under which the Company obtained a revolving guarantee limit from PKO BP in the amount not exceeding PLN 90 million,
   ii. a new guarantee line agreement with Bank Ochrony Środowiska S.A., under which the Company has obtained a revolving guarantee limit from BOŚ in the amount not exceeding PLN 20 million, and
   iii. a new guarantee line agreement with Bank Pekao S.A., under which the Company obtained a revolving guarantee limit from Pekao in the amount not exceeding 17 million.
b) early repayment of all balance-sheet liabilities due to financing banks covered by the provisions of the Agreement on the Principles of Servicing Polimex Mostostal S.A.'s Financial Debt of 21 December 2012, as amended. ("ZOZF Agreement") (see note 20),
c) modification of the provisions of the Terms of Issue of the Series A and B Bonds issued on 1 October 2014 ("2014 Bonds") and the Terms of Issue of Series C Bonds issued on 27 September 2017 (the "2017 Bonds") by introducing new redemption schedules for each series of bonds linked to the extension of the bond program to December 31, 2026 (the new final redemption date for Series A and B Bonds) (see note 21),
d) adjustment of provisions of other financial contracts in a way that reflects agreements between the parties concerning the implementation of a new concept of debt financing of the Issuer's Capital Group.

The conclusion of the package of documents indicated above enabled an early settlement of the ZOZF Agreement, which constitutes a definitive end to the financial restructuring of the Company started in 2012. At the same time, thanks to an agreement with the Company's long-term financial partners, namely, Towarzystwo Finansowe Silesia sp. z o.o., Bankowe Towarzystwo Kapitałowe S.A. and Agencja Rozwoju Przemysłu S.A., the terms for servicing debt financing in the form of the 2014 Bonds and 2017 Bonds were optimised, with new final redemption dates set for the 2014 Bonds (31 December 2026) and 2017 Bonds (31 December 2024). Moreover, the Guarantee Lines Agreement concluded as part of this transaction for the total amount of PLN 127 million will constitute another source of guarantee financing for projects which are in the implementation stage and planned to be acquired by Polimex Mostostal Capital Group.

The Company's current order portfolio less sales attributable to consortium members amounts to approximately PLN 3,912 million and includes concluded contracts or offered projects for which the Company's offer was selected. Year to year estimates of the value as follows: 2021 - PLN 1,190 million, 2022 - PLN 1,128 million, subsequent years - PLN 1,594 million.

(in thousands of PLN)

The risk associated with the loss of liquidity by the Company results from the mismatch of the amounts and payment dates on the side of receivables and liabilities. In order to hedge the Company against this risk it is vital to diversify the portfolio of suppliers and recipients and to finance subcontracting projects from funds received from procuring entities.

The table below presents the Company's financial liabilities as at 31 December 2020 and at 31

December 2020 by maturity based on contractual undiscounted payments.

As at 31 December 2020	Upon request	Less than 3 months	Between 3 and 12 months	From 1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	–	–	12,406	18,095	–	**30,501**
Lease	–	1,534	4,122	15,613	7,096	**28,365**
Bonds	–	–	13,391	122,000	–	**135,391**
Trade and other liabilities	39,739	155,608	10,777	9,339	4,126	**219,589**
	39,739	**157,142**	**40,696**	**165,047**	**11,222**	**413,846**

The Company is analysing the possibility of optimizing the conditions and terms of repayment of liabilities arising from individual financial instruments, which is to result in a change in the structure of balance-sheet and off-balance sheet financing.

As at 31 December 2019	Upon request	Less than 3 months	Between 3 and 12 months	From 1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	–	–	75,627	24,818	–	**100,445**
Lease	–	1,795	2,983	1,604	1,912	**8,294**
Bonds	–	–	86,721	99,676	–	**186,397**
Trade liabilities, deposits and other liabilities	25,652	55,862	7,575	15,098	–	**104,187**
Total	**25,652**	**57,657**	**172,906**	**141,196**	**1,912**	**399,323**

31. Financial instruments

31.1. Classificaton of financial instruments

Financial assets	**As at 31 December 2020**	**As at 31 December 2019**
	Financial assets measured at amortized cost	**Financial assets measured at amortized cost**
Other financial assets	41,958	50,718
Deposits due to the construction contracts	26,771	110,680
Trade receivables	309,286	52,115
Cash and cash equivalents	209,409	133,397

Financial liabilities	**As at 31 December 2020**	**As at 31 December 2019**
	Financial liabilities measured at amortized cost	**Financial liabilities measured at amortized cost**
Bank loans, borrowings and other external sources of financing	51,580	119,151
Other liabilities (long-term)	37	131
Deposits due to the construction contracts	30,523	28,759
Trade receivables	184,236	73,743
Bonds	125,487	173,578

(in thousands of PLN)

31.2. Revenues, expenses, profits and losses recognised in the profit and loss divided into the categories of financial instruments

Year ended on 31 December 2020:

	Interest income / (costs)	Profits / (losses) due to exchange differences	Establishment/ (dissolution) of write-offs	Income due to participation in the profits of limited partnerships	Other	Total
Financial assets						
Financial assets measured at amortized cost	5,131	–	(19)	61,155	20,085	**86,352**
Financial liabilities						
Financial liabilities measured at amortized cost	(19,604)	(513)	–	–	607	**(19,510)**
Total	**(14,473)**	**(513)**	**(19)**	**61,155**	**20,692**	**66,842**

Year ended on 31 December 2019

	Interest income / (costs)	Profits / (losses) due to exchange differences	Establishment/ (dissolution) of write-offs	Income / (costs) due to participation in the profits of limited partnerships	Other	Total
Financial assets						
Financial assets measured at amortized cost	4,839	(55)	19,975	(8,656)	19,647	**35,750**
Financial liabilities						
Financial liabilities measured at amortized cost	(23,060)	385	–	–	–	**(22,675)**
Total	**(18,221)**	**330**	**19,975**	**(8,656)**	**19,647**	**13,075**

32. Fair values of individual categories of financial instruments

For the purposes of financial reporting, fair value measurements are categorized according to three levels depending on the extent to which batch data for fair value measurements are observable and on the importance of batch data for fair value measurement as a whole. These levels take shape as follows:

Level 1: batch data is quoted prices (unadjusted) from active markets for identical assets or liabilities to which the entity has access on the valuation day.

Level 2: batch data is other than quoted prices included in Level 1 that are observable for an asset or liability element, either directly or indirectly.

Level 3: Batch data is unobservable data for the valuation of an asset or liability.

The fair values of financial assets and liabilities not measured at fair value do not differ materially from book values.

33. Capital management

The main objective of the Company's capital management is to maintain financial liquidity adequate to the scale and specificity of the conducted activity and safe capital ratios that would support the operational activity of the Company and ultimately increase its value for the Company's shareholders.

(in thousands of PLN)

The externally imposed capital requirements for the value of the equity have been imposed on Company. The Company had added capital throughout the year 2020.

The Company monitors capital using a leverage ratio, which is calculated as the ratio of net debt to total capital plus net debt. The Company includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt.

	As at 31 December 2020	**As at 31 December 2019**
Bank loans, borrowings, leases and bonds	178,428	292,729
Trade and other liabilities	261,494	86,036
Minus cash and cash equivalents	(209,409)	(133,397)
Net debt	**230,513**	**245,368**
Equity	719,429	660,877
Equity and net debt	**949,942**	**906,245**
Leverage ratio (net debt / capital and net debt)	24%	27%

34. Litigations regarding receivables and liabilities

As at 31 December 2020 there was an ongoing counterclaim proceeding initiated by Mostostal S.A. with the registered office in Warsaw (the "Defendant"). The counterclaim has been filed against the Company and Mostostal Siedlce Sp. z o.o. Sp.k. The counterclaim presents the position of the Defendant in the case filed by the Issuer and by Mostostal Siedlce Sp. z o.o. Sp.k. in June 2017 for Issuer cancellation of the sales agreement pertaining to two Mostostal trademarks: the figurative trademark “Mostostal” registered under number R 87887 and the verbal trademark “Mostostal” registered under number R 97850. The sales agreement for the trademarks was concluded in 2007 by the administrative receiver of one of the entities using the trademarks. The Defendant was the purchaser in this transaction. The value of the subject matter under dispute is PLN 96,908,719. The amount indicated by the Defendant constitutes the compensation for the violation of the protective rights with regards to the specified trademarks. The Defendant is claiming compensation of PLN 83,717,995 from the Company and PLN 13 190 724 from Mostostal Siedlce Sp. z o.o. Sp.k. The position of the Management Board of the Company is that the counterclaim and the value of the compensation have no legal merit and the counterclaim was filed merely in a reaction to the lawsuit initiated by the Parent Company in June 2017. As indicated by the analysis undertaken by the Company, the Company has subjective rights to Mostostal, as well as the prior user right to the trade name “Mostostal”, which take precedence over the above-mentioned Mostostal trademarks under dispute.

Apart from this case, as at 31 December 2020 there were no ongoing court proceedings with the values relevant from the standpoint of financial statements.

35. Key events after the balance sheet date

- On 5 January 2021, an annex was concluded with Sopockie Towarzystwo Ubezpieczeń ERGO Hestia S.A. ("ERGO Hestia") to the Agreement on Cooperation in the Scope of Granting Insurance Guarantees within the allocated guarantee limit concluded on 8 July 2020 ("Agreement"), pursuant to which the total guarantee amount for guarantees issued under the Agreement is increased from PLN 20,000,000.00 to PLN 83,000,000.00 ("Limit"). The limit available to the Company under the Agreement is renewable and is valid until 31 December 2021. Under the Agreement, the Company is entitled to apply for insurance guarantees with a validity period of up to 84 months from the date of issue.

  Blank promissory notes issued by the Issuer along with promissory note declarations serve as collateral for repayment of potential ERGO Hestia claims. In cases specified in the Agreement, ERGO Hestia may require establishment of additional security.

  ERGO Hestia may terminate the Agreement in the event of inadequate performance by the Issuer of its obligations under the Agreement, in particular i) failure to submit the securities required under the Agreement, ii) failure by the Company to satisfy claims due to ERGO Hestia under the

Agreement, iii) breach of other obligations of the Company under the Agreement. The agreement is concluded for an indefinite period.

- On 10 February 2021, an Guarantee Line Agreement (“Agreement”) was concluded with Intesa Sanpaolo S.p.A. with its registered office at Piazza San Carlo 156, 10121 Turin, Italy, acting through its branch Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland, with its registered office at ul. Książęca 4, 00-498 Warszawa ("Bank"). Under the terms of the Agreement the Bank granted the Company a limit for bank guarantees in the amount of PLN 186,000,000.00 ("Limit") with a maximum validity period of the guarantees issued under the Agreement not longer than until 30 June 2024. Under the Agreement, the Company obtained in particular the guarantees required for financing the contract, about which the Issuer informed in current report no. 6/2020 of January 30, 2020 ("Dolna Odra Contract").

  In compliance with the Agreement, the receivables of the Bank have been secured by: (i) assignment to the Bank of cash receivables due to the Company under contracts being financed by the Bank, in particular the Dolna Odra Contract, (ii) registered pledge on receivables under the bank account agreement regarding bank accounts opened with the Bank and (iii) financial and registered pledge on cash and claims for cash payments from accounts opened with the Bank. In addition, the Company submitted a statement of submission to enforcement, compliant with Article 777(1), point 5 of the Civil Procedure Code.

  On the basis of the Agreement, the Company assumed a standard range of obligations for this type of transactions, including information obligations concerning, inter alia, the provision of information on financial statements, concluded contracts and other significant events. The Agreement also provides, inter alia, for restrictions on the scope of activities (e.g. no change in the core business) or on the trading of assets and collateral.

  The Bank may terminate the Agreement in the event of the Issuer's improper performance of its obligations under the Agreement, in particular i) failure to submit the securities required under the Agreement, ii) failure by the Company to satisfy the Bank's matured receivables under the Agreement, iii) breach of other obligations of the Company under the Agreement.

- On 9 April 2021, an agreement ("Agreement") was concluded between the Capital City of Warsaw ("Ordering Party") and a consortium ("Contractor") consisting of: The Company and Polimex Infrastruktura sp. z o.o. with its registered office in Warsaw (wholly owned by the Issuer). The subject matter of the Agreement is the performance of construction works on the extension of voivodeship road No. 631 in the scope of the construction of a bridge facility in the course of Marsa - Żołnierska streets along with the reconstruction of the existing road system and land development network as part of the investment task entitled "Modernization of Marsa-Żołnierska Streets, section from Marsa intersection to city border" ("Assignment"). The deadline for completion of the Assignment has been set as 20 months from the day of concluding the Agreement. The remuneration for the completion of the Assignment is a cost estimate, the offer price amounts to PLN 46,441,302.41 net ("Offer Price"), and the value of the contractual remuneration, exceeding of which results in the need to conclude an annex to the Agreement, amounts to PLN 55,729,562.89 net. The Remuneration will be paid in instalments after the completion of respective implementation stages provided for in the Assignment Implementation Schedule. The Parties to the Agreement have agreed that the Contractor shall provide a warranty for defects in the subject matter of the Agreement for a period of 96 months. In order to secure the Ordering Party's potential claims, the Contractor provided the Ordering Party with a performance bond in the amount of 5% of the Offer Price. The Agreement provides for contractual penalties for, inter alia, delay in the performance of construction work. The Agreement provides for a limitation of contractual penalties to 20% of the Offer Price. The Agreement provides for the possibility of withdrawal from the Agreement by the Ordering Party or the Contractor in specific cases.

Warsaw, 28 April 2021

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS		
Name and surname	Position / Function	Signature
Krzysztof Figat	President of the Management Board	
Maciej Korniluk	Vice President of the Management Board	

SIGNATURE OF THE PERSON RESPONSIBLE FOR THE PREPARATION OF FINANCIAL STATEMENTS		
Name and surname	Position / Function	Signature
Sławomir Czech	Financial Director / Chief Accountant	